



**OCTOBER 18, 2022**

# Expedited Process Procurement Update: Overview of Updated draft E-LT1 RFP and Contract

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# Agenda

- Overview of Resource Eligibility Report and Directive – 1:00 PM to 1:35 PM
- CIB Presentation – 1:35 PM to 2:20 PM
- E-LT1 RFP and Contract Updates and Q&As – 2:30 PM to 4:00 PM
- Additional Time for Questions – 4:00 PM to 5:00 PM

# Purpose

- Provide an update on the Government's Directive to the IESO and the [IESO's resource eligibility interim report](#)
- Provide the Canada Infrastructure Bank (CIB) an opportunity to outline a proposed investment product they are considering for eligible projects participating in the E-LT1 RFP
- Discuss key changes made to the September 23 and August 25 drafts of the E-LT1 RFP and Contract, respectively, based on stakeholder feedback

# Meeting Remaining Reliability Requirements

Ontario needs a reliable and affordable grid to remain attractive for business development and ensure future growth and decarbonization

Ongoing competitive procurements are expected to secure up to 4,000 MW of long-term capacity. This will:

- Provide security against the risk of not having resources to meet North American planning standards
- Enable emissions reductions in other sectors AND support the transition underway
- Allow time for sector transformation – a more decentralized system, technological evolution to create new business opportunities and drive down costs

# Recommending a Diverse Portfolio of Options

Procurements should target significant storage, natural gas and other forms of capacity such as hybrids and biofuels.

Procurement Mechanism	Procurement Target	Storage Target	Natural Gas Target	Other (Hybrids, Biofuel, etc.)
Same Technology Upgrades	300 MW	No limit	Up to 300 MW	No limit
Expedited Long Term 1	1,500 MW	~900 MW	Up to 600 MW	No limit
Long Term 1*	2,200 MW	~1,600 MW	Up to 600 MW	No limit
<b>Total by 2027</b>	<b>4,000 MW</b>	<b>~2,500 MW</b>	<b>Up to 1,500 MW</b>	

\* Exact targets to be confirmed

# Benefits of a Diverse Portfolio

- No single energy option can meet all needs at all times
  - Diversity strengthens the reliability and resilience of Ontario's power system
- A system needs multiple characteristics – capacity, energy, reliability services – from its supply mix
- Similarly, a diversity of supply options from a range of suppliers within this procurement will help mitigate risks that will emerge in the development of new supply

# Project Development Risks

- All projects face development risks and delays – historically only 30 per cent reached commercial operation on schedule
- Forecasts predict battery demand will exceed supply, with dramatic price increases for key minerals
- The IESO will work with suppliers where appropriate to support timely project delivery and include additional incentives for commissioning early

Project Success\*



- On schedule
- Delayed
- Failed to reach completion

\*Based on large procurements since 2005.



# Minister's Directive 1/3

- On October 7, the IESO received a Government directive from the Minister of Energy to enter into procurement contracts with successful proponents for the acquisition of new incremental capacity from:
  - **new build** capacity resources; and
  - **same technology expansions** of existing capacity resources, where the expansion is separately metered and registered
- This directive instructs the IESO to issue final E-LT1 procurement documents and conclude the process in early 2023
- The E-LT1 RFP will have a procurement target of 1,500 MW and include a commercial operation date (COD) target of no later than May 2026

## Minister's Directive 2/3

- Importantly, the directive provides further clarification on the eligibility of gas generation, which the IESO recommended was necessary to help meet short term system reliability needs:
  - Gas generation contracts must expire by **April 30, 2040**, to align with the latest expiration date of the IESO current natural gas generation contracts
  - All other contracts must expire no later than **April 30, 2047**

## Minister's Directive 3/3

- The directive requires that proposed projects obtain shall obtain all necessary municipal permits or other support from the municipality or Indigenous community in which they are located (if applicable)
- The directive also requires proponents to publish and submit to the IESO community and Indigenous engagement plans in relation to their proposed projects
- Requirements for greenhouse gas (GHG) abatement plans as well as requirements for the IESO to recover 50% funding from future government subsidies, grants, or payments are also included in the directive

# Procurement Targets

The following procurement targets are also informed by the government directive, with gas generation contracts limited to a maximum of 1500 MW across all three procurement mechanisms, and up-to 600 MW for the E-LT1 RFP

Procurement mechanism	Procurement Target (MW)	Storage (MW)	Natural Gas (MW)	Other**
Same Technology Upgrades	300	No limit	Up to 300	No limit
Expedited Long-Term 1	1,500	~900	Up to 600	No limit
Long-Term 1*	2,200	~1,600	Up to 600	No limit
<b>Total by 2027</b>	<b>4,000</b>	<b>~2,500</b>	<b>Up to 1,500</b>	-

\*Exact targets to be confirmed

\*\* Non-emitting resources including hybrids and biofuels



# CIB Investment Product Presentation

CIB is developing an investment product for certain eligible projects participating in the E-LT1 and have asked to present to the IESO's E-LT1 stakeholder community. The following material was developed by CIB and the IESO makes no commentary or endorsement of the content or of the CIB investment product. For clarity, the investment product is and will remain independent of the evaluation of proposals under the E-LT1 RFP and any resulting E-LT1 Contracts.



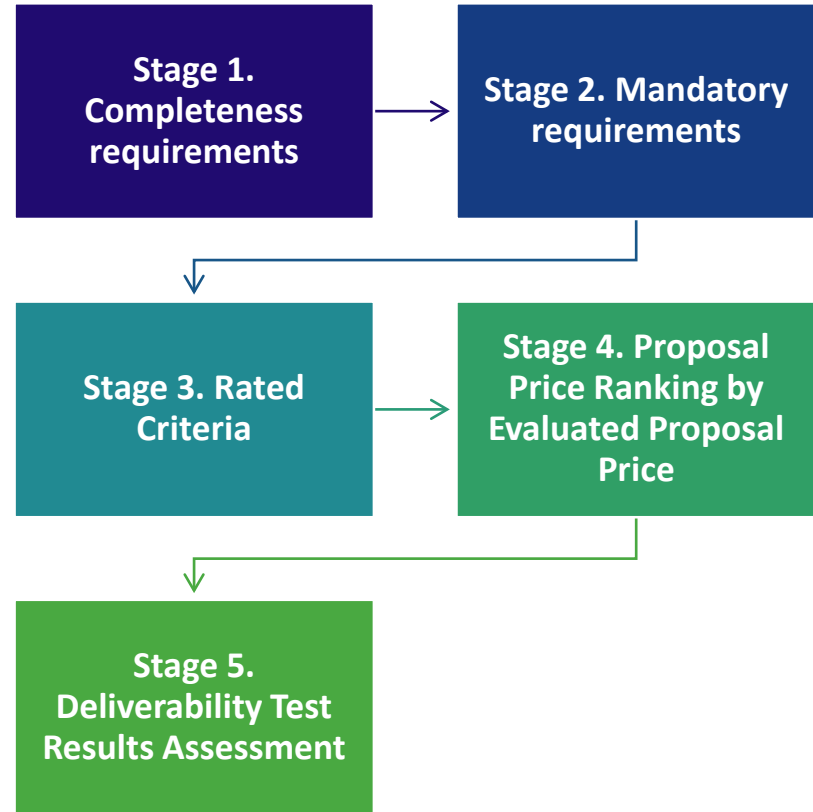
# Draft E-LT1 RFP Updates

# E-LT1 Schedule

Milestones	E-LT1
Qualified Applicants Announced	August 23, 2022
1 <sup>st</sup> Draft RFP and Contract Posted	August 25, 2022
Deliverability Test Submission Deadline	August 30, 2022
<b>Final RFP and Contract Posted</b>	<b>November 1, 2022</b>
<b>Deliverability Test Results</b>	<b>November 30, 2022</b>
<b>Proposal Submission Deadline</b>	<b>December 20, 2022</b>
<b>Contract Offer Announcement (Target)</b>	<b>[February 28, 2023]</b>

# Proposal Evaluation

- The E-LT1 evaluation process will be conducted separately for the Storage and Non-Storage Categories
- Key updates to Stages 2-5 of evaluation are outlined in subsequent slides





# Supplier Diversity

- In order to achieve supplier diversity and mitigate reliability risks, the IESO has introduced the following measures in the E-LT1 RFP:
  - No more than ten (10) Proposals in total may be submitted by any single Qualified Applicant or Persons Controlled by such Qualified Applicant and,
    - Such Proposals, in the aggregate, may not represent more than 600 MW of Maximum Contract Capacity of Proposals in the Storage Category, or
    - 400 MW of Maximum Contract Capacity of Proposals in the Non-Storage Category

## Stage 2 – Mandatory Requirements

- The Mandatory Requirements laid out in the latest draft E-LT1 RFP have not substantively changed from the previous version
- The determination of whether mandatory requirements are met will be based on the Proposal materials contained solely in submission documents (i.e., Prescribed Forms) 1 to 7 in the draft E-LT1 RFP (and 8 if applicable for purposes of Section 4.2(e) as set out in Section 3.6(c)(i))
- In addition, in responding to stakeholder feedback, the IESO has clarified the definition of Eligible Expansions (see subsequent slide)

## Eligible Expansions Defined

- Development and construction by an Eligible Expansion Counterparty of one or more additional Electricity generation or storage units to an Eligible Existing Facility that utilize the same Electricity generation or storage technology as the Eligible Existing Facility, and;

Uses the same connection point/physical interconnection to the IESO-Controlled Grid or the Distribution System as the Eligible Existing Facility

Separately metered from the Eligible Existing Facility

## Stage 3 – Rated Criteria 1/2

- Based on stakeholder feedback, the IESO adjusted the Rated Criteria points for the Duration of Service category, to align them with the points available to those projects able to demonstrate Municipal or Indigenous Support
- The revised Rated Criteria points are outlined on the following slide, with a maximum of **13** points awarded to any Proposal
- Rated Criteria points will have a weighting of **30%** towards the Evaluated Proposal Price proposal ranking calculation

# Stage 3 – Rated Criteria 2/2

## Location

- 4 points for West of Chatham and East of FETT
- 2 points for East of Cherrywood
- No points for other locations

## Duration of Service

- 3 points for duration greater than 12 hours
- 2 points for duration between 8 and 12 hours
- 1 points for duration between 6 and 8 hours

## Local Governing Body Support Resolutions

- 3 points awarded for evidence of having obtained local community support through a Local Governing Body Support Resolution

## Indigenous Community Participation

- 3 points awarded for equal to or more than 50% Economic Interest
- 2 points awarded if equal to or more than 25% but less than 50% Economic Interest
- 1 points awarded if equal to or more than 10% but less than 25% Economic Interest

Revised

## Stage 4 – Proposal Price Ranking by Evaluated Proposal Price

- In lieu of a reserve price, the IESO will introduce an upper bound **outlier bid** threshold into the evaluation process to ensure Proponents submit competitive Proposal Prices that maximize ratepayer value
  - **Storage category:** Bids above **30%** of the weighted average of the Proposal Price of all Proposals may be removed
  - **Non-storage category:** Bids above **40%** of the weighted average of the Proposal Price of all Proposals may be removed
- Proposals will then be ranked within each of the Storage and Non-Storage Categories, based on Evaluated Proposal Price; creating separate Storage and Non-Storage preliminary ranking lists for Deliverability assessment

## Stage 5 – Deliverability Test Results Assessment

- Starting with the Non-Storage preliminary ranking list, all of the Proposals that are included in the two preliminary ranking lists will have their Deliverability Test results reviewed by the IESO
- If the Deliverability Test result is “Deliverable but Competing” then Proposals that utilize the same deliverability pathway will compete against one another based on their Evaluated Proposal Prices
- Once the Non-Storage process is complete, the process will be repeated for the Storage preliminary ranking list, and all Proposals that are deemed deliverable will be added to either the “Non-Storage Offer List” or the “Storage Offer List”



# Draft E-LT1 Contract Updates



# Performance Security

- Based on feedback, performance security requirements in Section 6.1(b)(ii) have been amended to introduce a “step-down” approach, such that:
  - from COD until the tenth anniversary, **\$25,000/MW** of Maximum Contract Capacity is required, and
  - from the tenth anniversary until the end of the Term, **\$15,000/MW** of Maximum Contract Capacity is required

# Market Price Spread Adjustment Factor for Electricity Storage

- Based on feedback the IESO will adjust the \$10/MWh low and \$50/MWh high Market Price Spread Adjustment Factor thresholds in line with inflation on an annual basis
- Furthermore, to clarify based on some stakeholder questions, Electricity Storage Resources are not required to utilize the Market Price Spread Adjustment Factor – such Proponents should enter an adjustment factor of “0%” in their Proposals

# Materials Cost Index Adjustment 1/4

- The Materials Cost Index Adjustment (MCIA) has been identified as an important component of the E-LT1 procurement to help manage supplier risk during current macroeconomic conditions
- Proponents are supportive of the MCIA and submitted the following recommendations via written feedback:
  - The MCIA weighting should be increased from the 50% initially proposed
  - The 12-month post-contract execution window in which the MCIA was initially proposed to be calculated should be increased
  - Lithium should be included in the MCIA formula for storage, and the MCIA should account other costs affected by inflation

# Materials Cost Index Adjustment 2/4

## 18-Month MCIA Calculation Period

- The IESO proposes to calculate the MCIA over an 18-month period instead of 12 months; IESO will notify Suppliers no later than 60-days after the 18-month anniversary of the Contract Date

## 100% MCIA Weighting

- The overall weightings of the Storage and Non-Storage MCIA formulas have been increased 100% – this ratio is divided between material costs and the Consumer Price Index (CPI), which is utilized to take into account labour and transport costs

# Materials Cost Index Adjustment 3/4

## Lithium MCIA ( $MCIA_{Li}$ )

Lithium indexing has been included in the  $MCIA_{Li}$ , which will utilize a to-be-determined Lithium Carbonate (99.5% battery grade) index

- The ratios for the  $MCIA_{Li}$  are divided as follows:
  - 0.45 broad materials index (StatsCan IPPI categories P61 and P62)
  - 0.3 CPI
  - 0.25 lithium

# Materials Cost Index Adjustment 4/4

## Non-Lithium MCIA ( $MCIA_{nli}$ )

- The ratios for the  $MCIA_{nli}$  are divided as follows:
  - 0.7 broad materials index (StatsCan IPPI)
  - 0.3 CPI
- Non-lithium Electricity Storage resources will also be given the option to use the  $MCIA_{nli}$  instead of the  $MCIA_{li}$

## Force Majeure 1/2

- Another important area of feedback on the draft E-LT1 contract was in relation to Force Majeure (FM) provisions, particularly in light of recent geo-political tensions and the COVID-19 pandemic
- As such, the language has been refined to provide clarity on exclusions from FM:

“in respect of any impacts of the COVID-19 pandemic or the Russo-Ukrainian military conflict that were known or ought reasonably to be known by the Supplier, in each case, based on their magnitude, scope and geographic scale as of the Contract Date”

## Force Majeure 2/2

- Force Majeure provisions have also been modified to address circumstances that prevent the Supplier from achieving Commercial Operation by the Milestone Date for Commercial Operation, as defined in Section 11.3
- The IESO has also included FM provisions under Section 11.3(e) that identify as FM delays or disruptions (including those arising from other events of Force Majeure referred to in 11.3) in the construction of any Transmission System or Distribution System assets that are required for the Facility to Deliver Electricity



# Capacity Check Test

- Modification to Section 15.6 Capacity Check Test to include a requirement that a Facility evidence being able to deliver continuous electricity during Qualifying Hours equal to at least (a) the Duration Capability of the Project indicated in the Proposal, or (b) 8 hours
  - The previous draft only indicated a 4-hour requirement, which did not provide the IESO with a mechanism to ensure Facilities can deliver their committed capacity capabilities

## Other Changes to the E-LT1 Contract

- Modification to Section 16.7 where assignment or change of control is limited until **COD**
- The previous draft limited assignment or change of control to the first anniversary of COD

## Next Steps

- Stakeholders are encouraged to submit feedback on the updated draft procurement documents until **Friday, October 21**
- Feedback can be submitted to **engagement@ieso.ca**
- Revised prescribed forms will be published for final comment where warranted based on changes to the draft E-LT1 RFP
- The IESO will publish the final versions of the E-LT1 Contract, Prescribed Forms, and RFP, and open the E-LT1 procurement on **November 1**