

# Development of an IESO Competitive Transmission Procurement Process Backgrounder

## I. Introduction

The Independent Electricity System Operator (IESO) plans for Ontario's long-term electricity needs by assessing power system requirements for today and tomorrow. By identifying the right mix of energy resources to meet future needs, and determining how electricity will flow throughout the province, the IESO ensures that sufficient electricity will be available when and where it is needed. Planning for adequate and reliable high-voltage electricity transmission infrastructure is central to this purpose.

Following amendments to the *Electricity Act, 1998* that came into force on July 2, 2016, the IESO was given the authority, under an approved implementation plan or directive, to enter into contracts for the development of transmission systems or any part of such systems. As a result of this legislative change, the IESO is developing a new competitive transmission procurement process that will guide future transmission procurements in Ontario.

When developing the competitive transmission procurement process, the IESO's preliminary objectives<sup>1</sup> will include:

- Developing an overarching process that will guide future competitive transmission procurements;
- Considering whether to undertake one or more transmission projects to pilot the process, if any projects are suitable;
- If necessary, recommending any changes to legislation, regulations, policies, or programs that will support the implementation of a competitive transmission procurement process; and
- Through engagement, identifying opportunities and needs for Indigenous community participation in the context of a competitive transmission procurement process.

## II. What is competitive transmission procurement?

Over the past decade, there has been a desire in both Canada and the United States to bring competitive market forces to bear on new transmission projects to, among other goals, reduce costs and drive innovation.<sup>2</sup> In the US, this was codified through Order 1000, issued by the

---

<sup>1</sup> Further objectives may be explored through the planned engagement with interested parties.

<sup>2</sup> The specific goals of the competitive transmission process can vary by jurisdiction. Some other objectives include, for example, to open the market to new transmission entities, or to shift project risks from ratepayers to private project proponents.

Federal Energy Regulatory Commission (FERC), which effectively eliminated the “right of first refusal” for incumbent transmission facility owners to build new transmission in their service franchise areas. In Canada, two new transmission projects are being developed through competitive processes: Alberta’s Fort McMurray West 500-kV Transmission Project and Ontario’s East-West Tie Transmission Project.<sup>3</sup>

The approach used to competitively procure transmission tends to be customized for each jurisdiction.<sup>4</sup> Generally, a competitive process provides the opportunity for interested parties (established transmitters as well as new entrants) to compete to do one or more of the following: develop, design, finance, build, construct, own, operate, and/or maintain certain transmission facilities.<sup>5</sup> The approach being developed for Ontario will be informed through engagement with communities and stakeholders. The engagement approach is described below.

### **III. Why develop a competitive procurement process for transmission?**

One of the IESO’s goals for the development of a competitive procurement process for transmission is to seek the lowest cost solution for a transmission project by leveraging market forces and competition. Other reasons to use a market-based mechanism are to provide opportunities for innovation throughout the life-cycle of transmission facilities, as well as opportunities for new transmitters to participate in Ontario’s electricity market. In addition and as noted earlier, the competitive process will seek to provide further opportunities for Indigenous community participation in the electricity sector.

The outcome of the development of the competitive transmission procurement process will be a document or documents that will outline a flexible, scalable process to guide future IESO competitive transmission procurements.

---

<sup>3</sup> The competitive process run for the East-West Tie was administered by the Ontario Energy Board, for the completion of project development work only.

<sup>4</sup> The IESO is undertaking a jurisdictional scan to inform the development of the process. The results of this scan will inform the content of engagement discussions.

<sup>5</sup> The actual types of transmission facilities eligible for competitive procurement also vary by jurisdiction. In some jurisdictions, the competitive process is used to solicit bids to construct a range of potential solutions to needs established by the planning entity or system operator. Another approach is to seek bids to build specific solutions (e.g., transmission) to address reliability, economic, or public policy needs.

#### **IV. Design Principles and Engagement Activities**

Over the next several months, the IESO will engage with interested parties, including stakeholders and communities, to develop a competitive transmission procurement process to guide future transmission procurements. The IESO will engage on various design elements including, but not limited to, the following areas:

- Principles and/or criteria for establishing the types of transmission facilities that could be eligible for competitive procurement;
- What types of services the IESO will procure through these processes;
- The mechanics of a procurement, including any processes for qualifying potential bidders and bids, and appropriate timelines for developing and evaluating bids;
- Ensuring fairness through openness and transparency throughout the process;
- The mechanisms for funding transmission projects that are procured competitively;
- Recommended amendments to statutes, regulations, policies, or programs that would support implementation of the process, if any are identified; and
- Opportunities and needs for Indigenous community participation in competitive transmission.

Further information on the design elements will be posted during the engagement.

#### **V. Timelines**

This engagement is anticipated to take place from Q3 2018 through to the end of Q2 2019. The schedule for specific engagement activities can be found in the IESO's [Draft Engagement Plan](#).