SEPTEMBER 15, 2022

Seeking Feedback on Draft E-LT1 RFP and Draft E-LT1 Contract Posted August 25, 2022

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Agenda

- A general update on procurement timelines
- An overview of key aspects of the Expedited Process (E-LT1) draft RFP and draft Contract, including:
  - Rated criteria and the evaluation process
  - Market Pricing Spread Adjustment for Electricity Storage Facilities
  - Performance obligations
  - Materials cost index adjustment
- Expected differences between the E-LT1 and LT1 RFP and Contract

Purpose

- The purpose of this session is to make ourselves available for any questions stakeholders have on the E-LT1 draft RFP and Contract materials that were posted for feedback on August 25, to discuss some key components of the E-LT1 procurement documents that stakeholders have requested and to highlight expected differences between the draft E-LT1 procurement documents and the future LT1 RFP and Contract

E-LT1 and LT1 Schedule

Milestones	E-LT1	LT1
Qualified Applicants Announced	**August 23, 2022**	**August 23, 2022**
Draft RFP and Contract Posted	**August 25, 2022**	**N/A**
Deliverability Test Submission Deadline	**August 30, 2022**	January 4, 2023
Final RFP and Contract Posted	November 1, 2022	January 30, 2023
Deliverability Test Results	November 30, 2022	[April 14, 2023] (Additional time may be required depending on volume of applicants)
Proposal Submission Deadline	December 20, 2022	[July 2023]
Contract Offer Announcement	February 28, 2023	[October 2023]

E-LT1 RFP Overview

Procurement Targets

- As previously indicated, the IESO will introduce separate procurement targets for the Storage and Non-Storage Categories of the E-LT1 and LT1 RFPs
  - Exact ratios are yet to be finalized, however based on the breakdown of projects submitted into the deliverability testing process and the IESO's desire to ensure supplier diversity it can be expected that, at a minimum, more than half of the Target Capacity will be allocated to the Storage Category
- In the event that a marginal resource partially exceeds the procurement target, the IESO reserves the right to fully accept or reject that marginal resource
  - For example if the IESO requires 100 MW to reach its target capacity but the next marginal resource is 200 MW in size and it is cost-effective, the IESO would allow for the option to exceed the target capacity. Additional details will be included in the next version of the draft E-LT1 RFP

Prescribed Forms and Resolutions

- Section 3.6 of the RFP outlines the electronic submission requirements, which include Prescribed Forms that must be submitted as part of the proposal
- The IESO is currently drafting the Prescribed Forms and expects these to be shared in draft format (including a draft Municipal Council Resolution Template) by Sept. 23 for stakeholder feedback
- A revised version of the draft E-LT1 RFP will be posted alongside the draft Prescribed Forms
- Proponents are asked to submit comments on the draft Prescribed Forms and Resolution to engagement@ieso.ca by Oct. 14

Community Engagement Requirements

- One of the Prescribed Forms to be published on Sept 23 is the Prescribed Form: Community Engagement Requirements
- The Prescribed Form and updates to the Draft E-LT1 RFP will outline a number of key requirements to satisfy the Mandatory Requirements for community engagement
- Creation of **a public website** that will host the proponent's **Community Engagement** Plan, including notice **of public meeting(s)**
- Evidence of at least **1 public meeting** with each local community in which the project is proposed to be located prior to the Proposal Submission
- Evidence that the local municipality was notified of the public meeting(s)

Expansions Definition

- As previously indicated, the IESO will allow for certain types of Expansions to participate in the E-LT1 and LT1 RFPs
- The final definition on what constitutes an Eligible Expansion under the E-LT1 and LT1 RFPs will be shared with Proponents shortly and included in a revised draft E-LT1 RFP
- This definition will reflect the policy intent of acquiring incremental MWs from on-site same technology expansions at contracted facilities, and **will not** encompass a refurbishment of an existing facility or the acquisition of existing MWs

RFP Evaluation

- The format of the E-LT1 and LT1 RFPs will follow the same structure as previous IESO procurements

Stages of RFP	Description
Stage 1. Completeness requirements	• Proposals will pass or fail depending on whether the proposal is complete and contains all documents, forms and declarations as required by section 3.6 of the RFP • Including all required Prescribed Forms, Proposal Fees, and Proposal Security
Stage 2. Mandatory requirements	• IESO Market Participant, fully dispatchable to a connection point on a Distribution System or Transmission System and able to inject a sustained amount of Electricity for at least 4 consecutive hours during the Qualifying Hours • Received a Deliverability Test result of either "Deliverable" or "Deliverable but Competing" • Proposal includes an Indigenous Support Resolution if the project is proposed to be located in whole or in part on Indigenous Lands • Satisfied community engagement requirements (outlined on previous slide)
Stage 3. Rated criteria	Outlined on subsequent slide
Stage 4. Evaluation process	Outlined on subsequent slide

Rated Criteria

- The IESO updated the rated criteria points allocation in the draft RFP to be more reflective of the capacity product that is being acquired and the system reliability needs it is required to meet

Location	Duration of Service	Local Governing Body Support Resolutions	Indigenous Community Participation
• 4 points for West of Chatham and East of FETT • 2 points for East of Cherrywood • No points for other locations	• 6 points for duration greater than 12 hours • 4 points for duration between 8 and 12 hours • 2 points for duration between 6 and 8 hours	• 3 points awarded for evidence of having obtained local community support through a Local Governing Body Support Resolution	• 3 points awarded for >50% Economic Interest • 2 points awarded if between 25% and 50% Economic Interest • 1 point awarded if between 10% and 25% Economic interest

Evaluation Process

- The E-LT1 evaluation process is expected to be split between the Storage Category and Non-Storage Category
- There shall be a maximum of **16** possible Rated Criteria Points awarded to any Proposal, which will represent an evaluation criteria weighting of **30%** to be applied to the Submitted Price in order to form the Evaluated Proposal Price

Outlier Bids

- In lieu of a reserve price, the IESO is considering other mechanisms to eliminate outlier Proposal prices
- One potential option is to calculate the weighted average cost of the Proposal bids and determine if the Proposals are materially higher or lower than the weighted average, e.g. 25%
- In this instance, the IESO would first consider if any outlier Proposals have justifiable cost differences based on the information provided, and if not, the IESO may choose to disqualify the Proposal

E-LT1 Contract Overview

Spread Mechanism for Electricity Storage 1/2

- The E-LT1 Contract is a **pay-as-bid** capacity contract, however, the IESO has introduced a spread mechanism that intends to reduce the uncertainty of future energy prices for storage resources

Adjustment Up	Resources will be eligible for a capacity price top-up if average energy price spread between the 4 highest price and 4 lowest price Qualifying Hours are below $10/MWh over the course of a settlement month
No adjustment	Resources will not be eligible for a capacity price top-up if average energy price spread between the 4 highest price and 4 lowest price Qualifying Hours are within the $10/MWh to $50/MWh over the course of a settlement month
Adjustment Down	Resources will pay back a capacity price top-up if average energy price spread between the 4 highest price and 4 lowest price Qualifying Hours are above $50/MWh over the course of a settlement month

Spread Mechanism for Electricity Storage 2/2

- The IESO analyzed historical daily HOEP spreads (4 lowest and highest priced hours) over a 5-year period to create a normal distribution. The extremes of this normal distribution were used to determine adjustment thresholds for the spread mechanism ($10/MWh and $50/MWh)
- Proponents will bid in a **single adjustment percentage (revised since draft RFP)** to serve as both the adjustment up and the adjustment down. (e.g. an adjustment bid of 10% would mean the monthly capacity payment is increased by 10% when monthly average spread is less than $10/MWh and decreased by 10% when monthly average spread is greater than $50/MWh
- The maximum adjustment bid a proponent can submit is 20%. Note that proponents may opt out by bidding an adjustment of 0%

Performance Obligations: Must Offer

- Resources will be subject to must offer obligations, meaning they will be required to offer their contract capacity into the energy market day-ahead during the Qualifying Hours
- The IESO shall be entitled to exercise the right to prescribe a revised continuous 16-hour period to constitute Qualifying Hours with a 90 day written notice up to two times in each Contract Year
- After the completion of the second Contract Year, if the average of the Monthly Average Offered Quantity for each Settlement Month in any rolling 24 month period is less than 75% of the average of the Adjusted Monthly Contract Capacity for such Settlement Months, it will constitute a Supplier Event of Default

Performance Obligations: Non-Performance

- If a Facility fails to meet its performance requirements, an Availability Non-Performance Charge will be assessed and charged to the Supplier for the applicable Settlement Month
- This charge will be equal to the Monthly Capacity Payment multiplied by the applicable percentage shortfall below the Minimum Offer Quantity, multiplied by the monthly non-performance factor

Month	Factor	Month	Factor
January	2.0	July	2.0
February	2.0	August	2.0
March	1.5	September	2.0
April	1.0	October	1.0
May	1.0	November	1.0
June	1.5	December	1.5

Environmental Attributes

- Similar to the MTC I Contract, the E-LT1 and LT1 Contracts will leave any potential monetization of environmental attributes with the supplier
- This will provide facilities with clean energy attributes the opportunity to access additional revenues outside of the Electricity Markets above and beyond their capacity payment
- The IESO may consider a different approach for the next iteration of the Long Term RFP (**LT2 RFP**) as more clarity is formed on Ontario's future voluntary Clean Energy Registry
- All risk with respect to environmental attributes for emitting resources will be the sole responsibility of the Supplier

Materials Cost Index Adjustment

- IESO has included indexing as a means to provide developers with a hedge against inflation and commodity price increases during the pre-construction phase
  - [**50%**] of materials costs to be indexed (applies up and down)
  - [Averaged over the three consecutive calendar months, one year after contract execution]
  - IESO is proposing to leverage the StatsCan Industrial Product Price Index (IPPI) subcategories for ferrous and non-ferrous metals; feedback on this index or other indices that could be considered is welcome

Next Steps

- The IESO is seeking written feedback on the draft E-LT1 RFP and Contract, in addition to the E-LT1 RFP and LT1 RFP Summary of Differences Document, by **September 30, 2022**
- Please send written feedback to engagement@ieso.ca

Appendix:

Summary of Key Differences between the E-LT1 and LT1 RFP and contract

Summary of Differences: E-LT1 RFP and LT1 RFP

E-LT1 RFP	Proposed change in LT1 RFP
1.2 (d) Procurement Targets	The LT1 procurement target will be up-to 2500 MW which will be sub-divided into different procurement targets for the Storage Target Capacity and Non-Storage Target Capacity.
2.2 (e) Commercial Operation	• Early COD Payment Multiplier will not be present in the LT1 Contract • Milestone Date for Commercial Operation (MCOD) of May 1, 2027 • Early Operation to result in additional term, but no early COD bonus multiplier
2.2 (k) Completion and Performance Security	Amounts for LT1 RFP are as follows: • Base Amount Small-Scale LT1 Project: $30,000/MW of Maximum Contract Capacity • Base Amount Large-Scale LT1 Project: $40,000/MW of Maximum Contract Capacity • From COD to End of the term: $25,000/MW of Maximum Contract Capacity (for both Small-Scale LT1 Projects and Large-Scale LT1 Projects)
4.3 Stage 3 Rated Criteria	The LT1 RFP may reflect modified Rated Criteria values and/or Priority Zones for location.

Summary of Differences: E-LT1 Contract and LT1 Contract

E-LT1 Contract	Proposed change in LT1 Contract
2.3 Milestone Date for Commercial Operation	Early COD Payment Multiplier will not be present in the LT1 Contract • Milestone Date for Commercial Operation (MCOD) of May 1, 2027 • Early Operation to result in additional term, but no early COD bonus multiplier • Contract to expire on or before twentieth anniversary of the MCOD
2.13 Materials Cost Index Adjustment	Subject to change prior to finalization of LT1 RFP, depending on macroeconomic conditions and further IESO analysis.
6.1 Completion and Performance Security	Amounts for LT1 RFP are as follows: • Base Amount Small-Scale LT1 Project: $30,000/MW of Maximum Contract Capacity • Base Amount Large-Scale LT1 Project: $40,000/MW of Maximum Contract Capacity • 1.5 X Base Amount Small-Scale LT1 Project: $45,000/MW of Maximum Contract Capacity • 1.5 X Base Amount Large-Scale LT1 Project: $60,000/MW of Maximum Contract Capacity • From COD to End of the term: $25,000/MW of Maximum Contract Capacity (for both Small-Scale LT1 Projects and Large-Scale LT1 Projects)