



IESO E-LT1 and LT1 RFP

CIB Investment Overview

October 18, 2022

Background and Purpose

Background

- The Independent Electricity System Operator (the “**IESO**”) is competitively securing 4,000 megawatts (“**MW**”) of capacity through the first Long-Term Request for Proposals (“**LT1 RFP**”), complimentary expedited procurement process (the “**the Expedited Process**”, or “**E-LT1 RFP**”), and the Same Technology Upgrade Solicitation (each of the below a “**Project**”).
 - The LT1 RFP is intended to acquire 2,500 MW of capacity services to meet system reliability needs from new build and eligible expansion electricity resources starting in 2027 or earlier.
 - The E-LT1 RFP is intended to acquire 1,500 MW of capacity services to meet system reliability needs for new build and eligible expansion electricity resources able to commit to commercial operation in 2025.
- Of the 4,000 MW procured, approximately 2,500 MW will be in the form of energy storage.
- The IESO has requested the Canada Infrastructure Bank’s (“**CIB**”) support in this procurement process by providing a stapled financing package for prospective proponents (each a “**Proponent**”).
- The CIB is a federal Crown corporation working with federal, provincial, territorial, municipal and Indigenous sponsors and private sector investors to explore innovative approaches to financing and delivering new revenue-generating infrastructure which benefits Canadians and attracts private capital.
- The CIB is responsible for investing \$35B across five priority sectors – Public Transit, Clean Power, Green Infrastructure, Broadband, and Trade and Transportation. \$5B has been set as the CIB’s long-term sector target for Clean Power projects which result in greenhouse gas (“**GHG**”) reductions.

Purpose of this Presentation

- Articulate the CIB’s investment objectives, challenges and solutions.
- Present the illustrative investment product the CIB is seeking to make in the Project.

CIB Investment Structuring Considerations

Investment Objectives

- ✓ Maximize GHG emission savings across the Ontario power grid and accelerate the net-zero transition by supporting non-emitting, renewable or storage projects.
- ✓ Support a fair and competitive E-LT1 RFP and LT1 RFP procurement process for each Project backed by private investors and leveraging private sector expertise.
- ✓ Encourage meaningful Indigenous ownership of critical infrastructure projects.
- ✓ Address Ontario's increasing emerging electricity system needs.
- ✓ Transfer risk to private sector investors.

Investment Challenges and Solutions

- Investment in multiple projects require considerable resources and will likely result in high transaction costs.
 - Warehousing of investments in multiple projects within a CIB financing vehicle facilitates a virtual contract with only one counterparty – the IESO.
 - Due diligence activities can be streamlined through coordination with the IESO.
 - Bespoke arrangements do not need to be negotiated with each Proponent as the CIB's investment will be standardized.
- Fairness – the CIB investment should not result in an unfair advantage to any individual bidder in the IESO's competitive process.
 - A stapled offering for the CIB's capital contribution allows for transparency and equal access to all bidders.

Royalty Financing Product (1/2)

- The CIB will contribute up to 50% of Project capital costs (net of grants) in exchange for a royalty at a fixed royalty rate (“**Royalty Rate**”) on contracted Project revenues. The CIB’s Royalty Rate and targeted return will be set at financial close for each Project.

Term	Description
CIB Product	Royalty and Contribution Agreement (“ RCA ”)
Eligible Assets	New build Electricity Storage Facilities (has the meaning given to it in the IESO Market Rules) and other non-emitting assets.
Private Capital Requirements	At least 20% equity from non-government/crown corporations; or 50% non-recourse private debt.
Contribution Amount	<p>Lesser of:</p> <ul style="list-style-type: none"> • 50% of initially budgeted Project capital costs (net of grants) bid into the RFP and approved by the CIB; and • 50% of total Project capital costs (net of grants) properly incurred prior to commercial operation date (“COD”). <p>The CIB’s financing will be made pro-rata with other sources of Proponent capital. Minimum equity requirement will mirror requirements imposed by senior lenders.</p>
Availability	Expected to be from financial close to COD, as verified by an Independent Engineer.
Royalty Rate	Set % to achieve a target IRR (“ Base IRR ”) equal to the Government of Canada (“ GOC ”) yield as of the financial close of each Project, interpolated for [X]-years ¹ , based on the Fixed Capacity Payments (“ FCP ”), and calculated from the first FCP to the expiry of the Proponent’s contract (April 30, 2047) (“ Contract Life ”) plus [50] ² bps. For clarity, the Base IRR = [X]-year GOC + [50] ² bps.
Royalty Payment	<ul style="list-style-type: none"> • Monthly payments commencing at COD.
Upside	<ul style="list-style-type: none"> • As the Royalty Rate is applied against only the contracted payments (i.e. the FCP), the CIB would capture upside from future contracted capacity payments collected by the Proponents beyond the Contract Life. For clarity, the same Royalty Rate will remain throughout the Term (defined below). • The CIB’s upside is limited to a GOC + [200]² bps return (“Upside IRR”).

¹ Based on contract life.

² Indicative and subject to change as the CIB advances its due diligence.

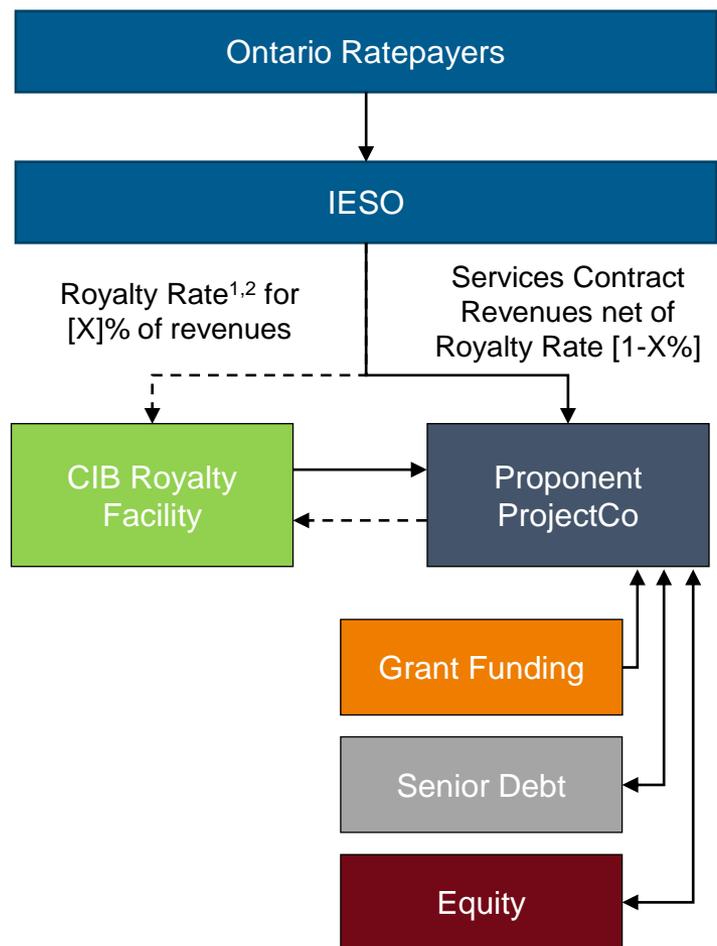
Royalty Financing Product (2/2)

Term	Description
Term	<p>The earlier of:</p> <ul style="list-style-type: none"> • COD + [30]¹ years; or • The date on which the CIB has achieved its Upside IRR. <p>Early Termination: The Proponent can terminate the CIB RCA by repaying all CIB contributions plus an amount required to result in the CIB achieving its Upside IRR.</p>
Security	First ranking charge against Project revenues representing the RCA with second lien over Project assets, behind Project level senior lenders, providing an unencumbered security package for senior lenders.
Independent Consultants	Proponent shall cause Senior Lenders and their independent consultants (including independent engineer and insurance consultant) to provide the CIB with a copy of each report, certificate or other document delivered to the Senior Lenders in respect of the Project and provide reliance to the CIB in the same manner and extent.
Intercreditor Considerations	<ul style="list-style-type: none"> • The CIB's payments are unaffected by operational senior events of default. • Same treatment as subordinated debt in a liquidation scenario (behind senior debt).
Other	<ul style="list-style-type: none"> • The IESO is responsible for the E-LT1 RFP and LT1 RFP and has ultimate authority over the selection and awarding process. The CIB is to finance the successfully selected Projects, subject to the CIB's own internal due diligence and approval processes.

¹ Indicative and subject to change as the CIB advances its due diligence. Expected to be beyond the Contract Life. Extended term designed to capture residual benefit from extended asset life or re-contracting.

Proposed CIB Investment Structure

- The CIB proposes the below royalty structure:



- The IESO will collect rates from the ratepayers and contract for the purchase of capacity with the CIB and each ProjectCo².
- The CIB offers an RCA for a fixed percentage of all revenues (to be calculated to achieve a target return) over a specified Term.
- The IESO includes the stapled RCA terms with the E-LT1 RFP and LT1 RFP, upon which proponents bid a Proposal Price.
- The IESO selects preferred proponents to construct Projects and for each Project, executes an Expedited Long-Term Reliability Services Contract or Long-Term Reliability Services Contract (“**Services Contract**”) with ProjectCo.
- The CIB executes the RCA with each ProjectCo. Proponents raise capital for their 50% portion of capital costs (net of grants) from private capital.
- The CIB makes contributions to each ProjectCo to fund a 50% portion of capital costs (net of grants).
- Upon commencement of operations, the IESO makes payments to the CIB and ProjectCo pursuant to the respective RCA².
- The CIB receives royalty distributions, while ProjectCo investors are paid through the ProjectCo waterfall.

¹A percentage of total revenues.

²Payment direction of RCA for further discussion with the IESO.

CIB Timeline

- The CIB and the IESO will work towards the publication of the CIB's draft RCA by early November, however, Proponents will be well informed throughout the process in order to support their proposal.

October 2022	November 2022	December 2022
<p>October 18</p> <ul style="list-style-type: none">■ The CIB's participation in the Long-Term RFP Q&A Webinar	<p>Early November</p> <ul style="list-style-type: none">■ Publication of the CIB's draft RCA and supporting memorandums, followed by a 1-week period allowing for questions and comments from Proponents, in writing	<p>December 1</p> <ul style="list-style-type: none">■ IESO's deadline for issuing Addenda to E-LT1 RFP and E-LT1 Contract■ To include the CIB's stapled RCA for the E-LT1 (pending CIB Board approval)
<ul style="list-style-type: none">■ CIB analysis and due diligence working towards the determination of the RCA mechanics■ Development of the CIB's stapled RCA and legal documentation for Proponents■ Continued discussions and collaboration with the IESO■ Continue discussion and feedback regarding the CIB's offer, as required, with Proponents via the IESO		<p>December 13</p> <ul style="list-style-type: none">■ CIB Board approval of the RCA <p>December 20</p> <ul style="list-style-type: none">■ E-LT1 proposal submission deadline