

MARCH 28, 2023

Long-Term Request for Proposals (LT1 RFP) Procurement Update

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Agenda

1. Update on the Long-Term RFP (LT1 RFP)
 - LT1 RFP Timeline
 - Sequencing with E-LT1 RFP
2. LT1 RFP Design Considerations
 - Mandatory Criteria
 - Rated Criteria
 - Deliverability Process Overview
3. Stakeholder Feedback and Next Steps

Status Update

E-LT1 RFP

- Proposals Submitted February 16
- Evaluation ongoing
- Targeting announcement of Selected Proponents in May/June

LT1 RFP

- Today: Engagement kick-off today
- Selected Proponents targeted for Q2 2024
- Schedule and key considerations presented on subsequent slides

FUTURE PROCUREMENTS

- IESO has begun to gather feedback and will seek to engage in a more focused manner in coming months
- Further detail later in presentation

Today's Discussion

E-LT1 RFP

- Proposals Submitted February 16
- Evaluation ongoing
- Targeting announcement of Selected Proponents in May/June

LT1 RFP

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Engagement on the LT1 RFP

- The IESO believes that maintaining largely the same design for the LT1 RFP as the E-LT1 RFP and focusing engagement on a few key issues will provide certainty early and allow the IESO to proceed in an expeditious manner
- Beyond the topics covered in today's session, the IESO recognizes that stakeholders may have other items they wish to discuss or revisit. Feedback on these items is welcome. Note that the IESO also plans to address the following topics at subsequent engagement sessions:
 - Clarity on the treatment of the Investment Tax Credit (ITC)
 - Discussion on feedback received from Indigenous Communities and Municipalities
 - Discussion on findings from the E-LT1 RFP and how they may inform LT1 RFP design



Long-Term Request for Proposals (LT1 RFP) – Engagement Launch

LT1 RFP – Reliability Focused Procurement

- Building off the Expedited-Long Term RFP (E-LT1 RFP), the Long-Term RFP (LT1 RFP) will aim to competitively procure **capacity** from New-Build and Eligible Expansion Facilities to meet Ontario's emerging system needs
- The LT1 RFP, like the E-LT1 RFP, is a reliability driven procurement that is focused on meeting system needs when they emerge; as such, it will be targeted at projects able to achieve the targeted in-service dates (2027)
- Given the reliability focus of the LT1 RFP, the IESO will need to maintain the key Mandatory Requirements in the E-LT1 RFP and meaningful proposal security amounts to ensure that Proponents have both the technical and financial capability required to meet emerging system needs

Re-Cap: Procurement Targets

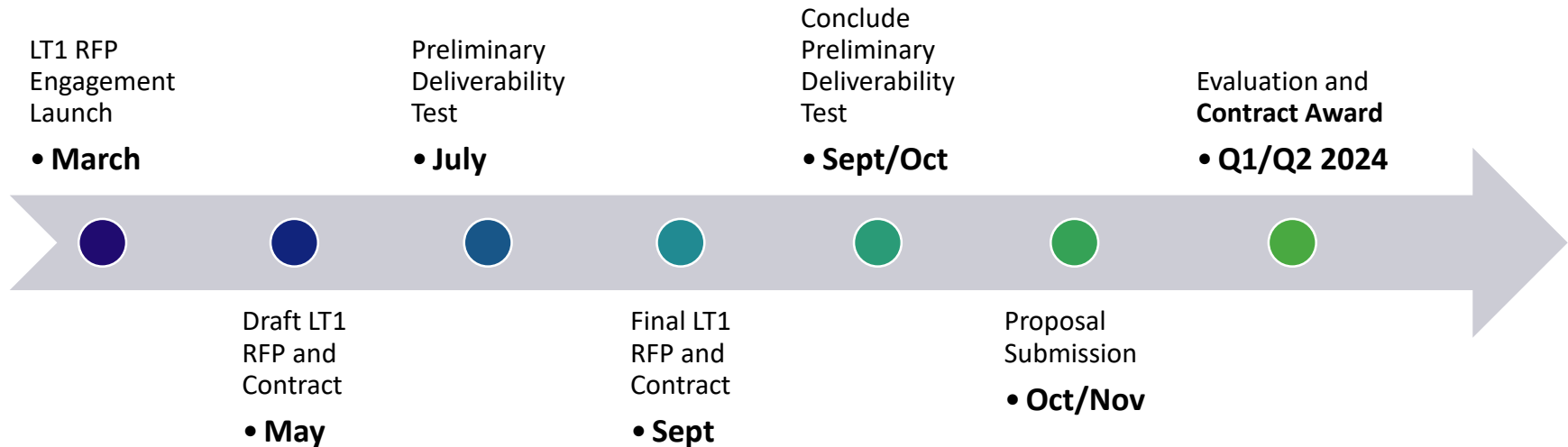
- The following procurement targets were informed by the October 6, 2022 directive from the Minister of Energy
- That directive limited the amount of natural gas generation across the Upgrades, E-LT1 RFP and LT1 RFP procurement mechanisms to 1,500 MWs

Procurement mechanism	Procurement Target (MW)	Storage (MW)	Non-Storage (MW)
Upgrades	300	No limit	300
E-LT1 RFP	1,500	900	600
LT1 RFP*	2,200	~1,600	~600
Total by 2027	4,000	~2,500	Up to 1,500

*LT1 RFP targets may be amended based on the outcome of the E-LT1 RFP

Illustrative Timeline

- In order to meet emerging system reliability needs, the IESO will aim to conclude LT1 RFP and offer contracts by end of Q2 2024



E-LT1 RFP to LT1 RFP – Additional Opportunities

- E-LT1 RFP Proposal evaluation process is currently ongoing with the announcement of selected Proponents targeted for **May/June 2023**
- Proponents that were unsuccessful in the E-LT1 RFP will have the opportunity to re-submit their Proposals and participate in the LT1 RFP
- Recognizing the considerable up-front work already conducted for E-LT1 RFP projects (e.g., community and municipal engagement), the IESO will explore opportunities to simplify the participation of those projects in the LT1 RFP

LT1 RFP Contract Design and Revenue Model

- The LT1 RFP will utilize the revenue model employed for the E-LT1 RFP; a “**capacity style**” contract that pays suppliers on a “**pay-as-bid**” basis to make their contract capacity available on a day-ahead basis for all **qualifying hours** (07:00 to 23:00 EST on business days, or such other continuous 16-hour period over a maximum of five (5) days in any calendar week, as prescribed by the buyer)
- **20-year term** for in-service by **May 1, 2027**, with considerations for additional term as an incentive for early operation
- All other revenue opportunities, including from the real-time energy market and from the monetization of environmental attributes, will remain with the supplier

Subsequent Procurement Opportunities (1)

- The IESO's 2022 Annual Planning Outlook has shown that while system needs emerge mid-decade; they will continue into the 2030s, in the form of both **capacity** and **energy** needs
- Continuous, cadenced acquisition mechanisms will be necessary to continue to meet emerging system needs and lead decarbonization efforts
- Over the coming months, the IESO will begin engagement on subsequent procurement opportunities, including the second Medium-Term and Long-Term RFPs (**MT2 RFP** and **LT2 RFP**) with a focus on design considerations
- Through ongoing engagement on the 2023 Annual Acquisition Report (**AAR**), the IESO has begun to hear a number of key themes from stakeholders, which will drive discussions on subsequent procurement opportunities

Subsequent Procurement Opportunities (2)

Key themes from AAR stakeholder outreach

1. Asset owners would like to continue operating beyond current contract expiry and are exploring the merits of the following options, each of which involve a spectrum of capital investments:
 - Running a facility until end of life
 - Extending life of a facility
 - Re-powering opportunities

Subsequent Procurement Opportunities (3)

Key themes from AAR stakeholder outreach

2. Asset owners consider several factors that influence the decision making behind future participation of existing facilities, such as:
 - The magnitude of capital investment and the competition for that investment outside Ontario, ESG mandates, technological readiness, uncertainty with the CER
3. In addition to a request for clarity on the future resource acquisition mechanisms, stakeholders put forth considerations such as:
 - More frequent acquisition activities with smaller targets, flexible term lengths, simple and less prescriptive procurements and bridging opportunities

Summary: LT1 Engagement Launch

Official launch of LT1 RFP engagement

- To meet emerging system needs, the IESO will be launching the LT1 RFP and building on the foundation laid by the E-LT1 RFP; maintaining stringent timelines, Mandatory Requirements and Proposal Security will remain paramount

Opportunities for unsuccessful E-LT1 Proposals

- The procurement will offer opportunities to unsuccessful Proposals from the E-LT1 RFP to participate and will maintain already established revenue models

Additional procurements to come

- Subsequent procurements will seek to provide opportunities for different resources types, as well existing asset owners looking for additional opportunities



LT1 RFP Design Considerations

RFP and Contract Structure

- The overall structure of the LT1 RFP and Contract will remain consistent with the E-LT1 RFP and Contract, which was developed with significant stakeholder and community input throughout 2022
- At a high-level this means that:
 - There will continue to be a bifurcated approach to procuring Storage and Non-Storage resources
 - The term length for non-emitting resources will be 20 years, with consideration of additional term awarded for early operation
 - Term length for gas resources will be capped to 2040, which is consistent with the expiration of Ontario's final gas contracts and October 6, 2022 Minister's directive

High-Level LT1 RFP Structure

**Mandatory
Requirements**

Rated Criteria

**Deliverability
Process**

High-Level LT1 RFP Structure: Mandatory Requirements

**Mandatory
Requirements**

Rated Criteria

**Deliverability
Process**

Overview of Mandatory Requirements

The LT1 RFP will maintain the existing E-LT1 RFP Mandatory Requirements, which include the following:

Qualified Applicant or Eligible Expansion Counterparties

- Qualified via the LT1 RFQ or Eligible Expansion

Long-Term Reliability Project

- New-Build or Eligible Expansion Project

Community and Indigenous Engagement

Indigenous Support Resolution

- If on Indigenous Lands (as defined in the RFP)

Deliverability Test Results

- Deliverable or Deliverable but Competing result

Municipal Support Resolution

- Discussed on next slide
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Municipal Support Resolutions

- Leveraging the Minister's December, 2022 letter to the IESO and the content of Addendum no. 1 to the E-LT1 RFP, the IESO intends to make obtaining a Municipal Support Resolution (Municipal Support Resolution or a Blanket Municipal Support Resolution from a Local Municipality) ahead of Proposal Submission a Mandatory Requirement
- Given the additional lead-time for the LT1 RFP compared to the E-LT1 RFP and ongoing project development work, the IESO believes that most/if not all Proponents have already had a chance to meet with municipalities and councils (which have now been seated post-2022 election)
- The IESO is seeking **stakeholder feedback** on this proposed approach

High-Level LT1 RFP Structure: Rated Criteria

**Mandatory
Requirements**

Rated Criteria

**Deliverability
Process**

LT1 RFP Proposed Rated Criteria

- The IESO will be re-evaluating the Rated Criteria used for the E-LT1 RFP to ensure it meets the needs of the LT1 RFP
 - **Location** and **duration of service** may change based on the results of the E-LT1 RFP
 - **Indigenous community participation** is discussed under “Seeking Feedback”
 - Local Governing Body Support Confirmations will be considered mandatory, with no proposed Rated Criteria Points assigned

High-Level LT1 RFP Structure: Deliverability Process

**Mandatory
Requirements**

Rated Criteria

**Deliverability
Process**

Purpose of Deliverability Test

Deliverability tests are carried out to avoid procuring resources that cannot meet Ontario's **provincial needs** due to:

1. Not enough **transmission system capacity** where the project is proposing to connect. This is determined by the **IESO**;
2. Not enough **distribution system capacity** where the project is proposing to connect. This is determined by the **LDC**;
3. **Breakers** not being able to interrupt the increased short circuit levels created by the project (typically referred to as short-circuit concerns). This is determined by the **transmitter**.

Deliverability Test Considerations

- The IESO needs to ensure that new generation capacity is located where the transmission system and distributions system can accommodate their injections of electricity and it can be transferred to meet the province wide resources needs
- This also includes consideration of the impact of increased short circuit levels from new generation facilities on the existing transmission and distribution system equipment
- For Electricity Storage facilities, the IESO needs to ensure the extra demands resulting from the charging cycle can be supplied

Deliverability Test: Preparation for LT1 RFP

- By mid-April, the IESO will post a **Deliverability Test Report** on the process for the Expedited Process (E-LT1 RFP) and the Same Technology Upgrade Solicitation. This report will include findings and lessons learned.
- By mid-May, the IESO will update the **Deliverability Guidance Document**. This may include changes to the test assumptions and locational preference considerations.
- In addition to the aforementioned documents, the IESO anticipates releasing an updated Deliverability Test form soon

Summary: LT1 RFP Design Considerations

Similar RFP and Contract as the E-LT1 RFP and Contract

- The LT1 RFP and Contract will maintain a bifurcated approach for Storage and Non-Storage resources, and the design of the materials will be similar

Municipal Support Resolution

- This will be made mandatory and the IESO is seeking feedback on showing evidence of municipal support prior to bid submissions

Deliverability

- A deliverability test will occur prior to bid submissions and updated deliverability documents will be posted during the spring



Stakeholder Feedback and Next Steps

Seeking Feedback – RFP Design

- In order to inform the design of the LT1 RFP, the IESO is welcoming feedback from stakeholders on:
 - E-LT1 RFP participation feedback
 - LT1 RFP design – Mandatory Requirement for Municipal Support
 - LT1 RFP design – Rated Criteria Categories and Point Allocation

Seeking Feedback – Indigenous Community Participation

- The IESO intends to begin engaging with Indigenous communities in the coming weeks, to seek feedback on the design of the LT1 RFP
- The IESO is also seeking feedback from other stakeholders, including E-LT1 RFP Proponents on the Rated Criteria for Indigenous Community Participation as contemplated in the E-LT1 RFP

Seeking Feedback - Contract

- Stakeholders should note that the commercial structure/ revenue model for the LT1 Contract will not be modified from that which was used under the E-LT1 Contract. However, the IESO welcomes feedback on other aspects of the design of the LT1 Contract, including:
 - Technology specific considerations;
 - Design elements that pertain to financeability, and;
 - Other provisions stakeholders wish to provide feedback on.
- The IESO intends to apply observations from the E-LT1 RFP as they pertain to optional contractual provisions; the Materials Cost Index Adjustment (**MCIA**) and Facility Spread Adjustment Factor (**FSAF**), but is open to feedback from stakeholders prior to the conclusion of the E-LT1 RFP

Next Steps

- The IESO invites stakeholders to provide written feedback on the LT1 RFP process and design considerations by **Tuesday, April 11**
- All written feedback should be submitted to engagement@ieso.ca
- The IESO will be continuing engagement on the LT1 RFP in April, with dates TBD

Thank You

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Appendix

Re-cap of E-LT1 RFP Mandatory Requirements 1/2

Qualified Applicant

- Qualified Applicant under the LT1 RFQ for either Large-Scale LT1 Projects or Small-Scale LT1 Projects
- or a Person Controlled by such Qualified Applicants,
- or an Eligible Expansion Counterparty.

Long-Term Reliability Project

- New-Build or Eligible Expansion Electricity resources that are directly connected to a Distribution System or a Transmission System in Ontario
- Project is dispatchable and delivers at least 4-consecutive hours of energy during Qualifying Hours
- Is a Market Participant or can become a Market Participant by the Commercial Operation Date

Re-cap of E-LT1 RFP Mandatory Requirements 2/2

Deliverability Test Results

- The project must have received a Deliverability Test result of either “Deliverable” or “Deliverable but Competing” to submit a bid proposal

Community and Indigenous engagement

- Project website that describes a community and Indigenous engagement plan
- At least one (1) in-person or virtual community meeting to discuss the Long-Term Reliability Project with members of the public

Indigenous Support Resolution

- Projects on Indigenous Lands as defined in the E-LT1 RFP will require an Indigenous Support Resolution