



NOVEMBER 23, 2021

Procurement Fees – Resource Adequacy Framework

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Agenda

- Procurement Fee Stages / Purpose of Procurement Fees
- Past Procurement Fees/ Procurement Fees in other Jurisdictions
- Past Engagement Feedback
- Procurement Costs
- Proposed Framework for Procurement Fees
- Procurement Fee Setting
- Applying the Framework

Purpose

- Provide stakeholders with an overview of the IESO's procurement fee setting framework, including the purpose of procurement fees, and historical information on the collection of fees and costs from previous procurements

Background

- The IESO is proposing to increase the maximum allowable procurement fees that it can charge per submission for electricity supply and capacity procurements, including ancillary services from up to \$10,000, to up to \$50,000, in order to provide flexibility to adjust the fees based on the needs of the specific procurement
- This request is aligned with previous IESO procurements and past stakeholder feedback
- The IESO submitted this request to the Ontario Energy Board (OEB) in its latest 2020-2021 Revenue Requirement Submission
- During consideration of the IESO's proposal, the IESO and intervenors agreed that the IESO would stakeholder the proposed increase and the procurement fee setting framework

Stakeholder Feedback Requested

- The IESO is consulting stakeholders on the proposed procurement fee setting framework and the factors considered when setting the proposed procurement fee, including:
 - Impacts to competition
 - Eligibility of existing vs new-build facilities
 - Capability of proponents
 - Encouraging serious proposals
 - Expected project size; and
 - IESO costs to administer the procurement

Procurement Fee Stages

- There are three procurement stages under which fees can be charged:
 - **Registration:** Fees for Proponents to indicate their interest via registration and/or obtain their Qualified Capacity from the IESO, as is the case in the Medium-Term RFP
 - **Qualification:** Fees to accompany a submission in response to an RFQ
 - **Proposal Submission:** Fees to accompany a proposal submission in response to an RFP or Program

Note: The group of fees described above have been collectively referred to as “registration fees” in certain regulatory filings but are described in this deck as “procurement fees” for the purposes of stakeholdering.

Purpose of Procurement Fees

- The IESO sees procurement fees as playing an important part in achieving reliable procurement outcomes as they ensure potential proponents are serious about their interest and have the financial wherewithal to participate in the procurement
- Charging procurement fees is consistent with past IESO practice
- Procurement Fees are not intended to be a source of revenue
 - However, procurement fees help to offset some of the costs of administering the procurement but do not cover the total costs of procurements
- The IESO intends to set fees in a manner that recognizes that they cannot be a hindrance to competition

Past Procurement Fees

- The IESO has always stakeholdered fees through draft procurement documents in advance of running a procurement and will continue to do so
- Fees have varied and have generally been customized to the procurement
- Under the first Large Renewable Procurement (LRP I), procurement fees were capped at \$50,000, which covered the Qualification Fee at the RFQ stage and the Registration Fee at the RFP stage (registration and proposal submission included)
- In addition to fees, procurements have required proponents to submit proposal security (also referred to in some procurements as bid security)
 - The security is refundable if the proposal is unsuccessful

Past Procurement Fees

IESO/OPA Procurement Initiative	Proposal Fee(s) (Titled Registration Fees in some past procurements)	Qualification Fee (Charged at RFQ stage)
Large Renewable Procurement I	\$10,000	\$2,000-40,0000
Combined Heat and Power	\$10,000	N/A
Feed-In Tariff	\$500-5,000 (Application fee)	N/A
Combined Heat and Power Standard Offer Program	\$1,000	N/A
Energy Storage	\$1,000	N/A
Regulation RFP	\$2,260	N/A
Renewable Energy Supply III	\$10,000	N/A
GTA West RFQ/RFP	\$10,000	N/A
Southwest GTA RFQ/RFP	\$10,000	N/A
Hydroelectric Standard Offer Program	\$500 (Application fee)	N/A

Procurement Fees in Other Jurisdictions

Jurisdiction and Procurement	Overview of Fees								
Alberta Electricity System Operator (AESO) Renewable Projects RFQ/RFP	<p>\$1,000/MW for the aggregate Contract Capacities of all Renewables Projects Proposals submitted in Qualification Submissions together with</p> <p>\$2,500 for each Renewables Project Proposal in excess of one; provided that the Submission Fee will, in all cases, not be less than \$10,000 and not more than \$50,000 plus, in all events, \$2,500 for each Renewables Project Proposal in excess of one. (Note: Near identical approach as IESO's LRP I).</p>								
BC Hydro Bioenergy RFP 1	Flat \$10,000 registration fee								
New York State – RFP by NYSERDA for Renewables	<p>Bid Participation Fee</p> <table> <tr> <td>Less than 5.00 MW</td> <td>\$5,000</td> </tr> <tr> <td>5.00 – 19.99 MW</td> <td>\$20,000</td> </tr> <tr> <td>20.00 – 49.99 MW</td> <td>\$50,000</td> </tr> <tr> <td>50.00 MW or more</td> <td>\$100,000</td> </tr> </table>	Less than 5.00 MW	\$5,000	5.00 – 19.99 MW	\$20,000	20.00 – 49.99 MW	\$50,000	50.00 MW or more	\$100,000
Less than 5.00 MW	\$5,000								
5.00 – 19.99 MW	\$20,000								
20.00 – 49.99 MW	\$50,000								
50.00 MW or more	\$100,000								
Illinois Power Agency RFP	Nominal Bid Participation Fee of \$500 ; and Supplier Fees paid only by the winning bidders (Several Hundred Thousand Dollars)								

Flexibility to Set Fees

- The IESO has set procurement fees in accordance with the scope and design of the procurement in question
 - Procurements for larger investments in complex, new-build, resources with longer development timelines have seen higher fees
 - On the other hand, some standard offer programs or smaller-scale procurements that involved smaller projects had lower fees to ensure the fees were proportional to the size of the investment
- The goal of higher fees in a specific procurement, reflects the nature of the resources being acquired and the importance of those resources meeting reliability needs. They also ensure that procurement efforts are focused on serious proponents that are capable of delivering proposed projects to maintain reliability

Past Stakeholder Feedback

- Throughout past procurement activities, stakeholders were supportive of **higher** fees to reduce the number of speculative proposals:
 - “The RFQ fee maximum should be increased from \$10,000 to \$20,000. Given the amount of capacity available, this ensures only serious proponents participate.” (SkyPower)
 - “To enhance the calibre of RFQ submissions, we recommend the IESO/OPA establish a **higher application submission fee** than currently proposed. At the RFQ stage, we recommend that the maximum fee be raised to **\$2,500/MW** to a maximum of **\$100,000** in an effort to reduce speculative proponents. Erroneous evaluation of speculative projects hurts the LRP process by adding undo time and cost to the process, therefore this higher limit will help reduce illegitimate projects from clogging up valuable evaluation time. We believe a high threshold for financial credibility and stability will benefit the LRP process and lead to greater certainty on behalf of the OPA.” (EDF)
- *See Appendix for additional feedback*

Procurement Costs

- In addition to their role in ensuring quality control in procurements, fees collected can help offset some procurement costs
- Depending on the complexity of the procurement, the capacity procured and volume of proposals, costs of procurements have varied from \$300,000 to over \$3,000,000
- These costs include staff costs of those working on the procurement full-time and the cost of external consultants who help the IESO oversee procurements
 - The cost of resources across the IESO that have provided crucial support during procurements are not captured in these estimates, but would significantly increase the cost estimates
- **The IESO has never collected fees in excess of the costs of a procurement**

Procurement Operational Costs - Estimates

Procurement	Internal Costs	External Costs	Total Estimated Cost	Total Estimated Fees Collected
Large Renewable Procurement I	\$1,800,000	\$1,400,000	\$3,200,000	\$3,000,000
Combined Heat and Power I	\$500,000	\$1,000,000	\$1,500,000	\$80,000
Combined Heat and Power II	\$375,000	\$500,000	\$875,000	\$210,000
Combined Heat and Power III	\$500,000	\$250,000	\$750,000	\$30,000

Procurement Operational Costs - Estimates

Procurement	Internal Costs	External Costs	Total Estimated Cost	Total Estimated Fees Collected
Combined Heat and Power Standard Offer Program	\$600,000	\$350,000	\$950,000	\$40,000
Industrial Electricity Incentive 1 & 2	\$800,000	\$1,000,000	\$1,800,000	\$50,000
Northern York Region	\$225,000	\$120,000	\$345,000	\$60,000
Southwest Greater Toronto Area	\$225,000	\$250,000	\$475,000	\$94,500

Proposed Framework for Procurement Fees

- As previously mentioned, the IESO proposes to establish a framework for setting fees at three distinct stages of a procurement:
 - **Registration:** Fees charged to account for capacity qualification and as a means of measuring interest in the procurement and/or adjusting target capacity
 - **Qualification:** Fees to accompany a submission in response to an RFQ
 - **Proposal Submission:** Fees to accompany a proposal submission in response to an RFP or program
- While the IESO has previously used “Registration Fees” as a catch-all term that captured fees charged at both the registration and proposal submission phases, the proposed framework intends to 1) Charge a nominal fee at the registration stage in order to account for the work required to qualify capacity and to measure interest in the procurement early in the process 2) Charge a qualification fee at the RFQ stage 3) Charge a separate fee at proposal submission

Procurement Fee Setting

- The IESO proposes to continue to use procurement fees to ensure its procurement efforts are focused on proponents that are serious and capable of delivering proposed projects
- Due to the long lead time of most electricity resource development, the IESO must manage risks that successful projects are significantly delayed or fail to deliver as it could have significant impacts on reliability
- This is particularly critical in the new Resource Adequacy framework that is based on acquiring services and products to deliver reliability, compared to past practices of acquiring resources to meet policy goals
- While the IESO wants to maintain flexibility in setting the procurements fees to ensure it achieves its goals of quality control, there are key considerations it will commit to when setting those fees

Procurement Fee Setting - continued

In setting the fees for the procurements, the IESO will ensure that it considers:

Impacts to reliability by:

- Encouraging serious proposals and ensuring proponents have the financial wherewithal to deliver on their proposal(s)
- Distinguishing fees for product(s)/service(s) acquired from existing vs new facilities in recognition that there are lower risks for existing assets in delivering on their proposal

Impacts to competition by:

- Scaling the qualification and proposal fees to reflect the size and scale of the proposed product(s)/service(s)/project(s)
- Allowing for stakeholder feedback on the draft materials including the fees for each procurement

IESO costs to administer the procurement:

- The IESO will charge Registration, Qualification and Proposal Fees, as applicable depending on the design of the procurement
 - The Registration Fee will be a flat fee not to exceed \$5,000
 - The Qualification and Proposal Fees will be scaled by size and will distinguish between existing and new assets
 - **The sum of all the fees will never exceed \$50,000**

Applying the Framework

- For the upcoming Medium-Term RFP, the IESO proposes to apply the framework in the following manner:
 - The IESO proposes a **Registration Fee of \$500**, to be paid by proponents during the registration phase in return for the IESO providing their qualified capacity (in UCAP)
 - A **Minimum Proposal Submission Fee of \$3,000**, with a variable fee (\$/MW) of **\$100/MW** for existing MWs, **up to a Maximum of \$10,000** (including Registration Fee)
 - Or, \$300/MW for new MWs (applies to updated portion of existing facilities)

Total Minimum/Maximum Proposal Fees of \$3,000/\$10,000 for the first Medium-Term RFP

- Under the Medium-Term RFP, lower fees are warranted as this procurement is exclusively focused on existing facilities and hence has a lower risk for reliability

Summary and Next Steps

- The IESO is seeking feedback from stakeholders on the proposed framework by **December 14, 2021**
 - Does the proposed framework assist the IESO in running effective procurements with serious proponents?
 - Does the proposed approach and then stakeholdering the exact fees under each procurement provide appropriate opportunities for feedback?
- The IESO will include the proposed fees for the medium-term procurement in an update to the draft MT RFP
- The IESO will be collecting feedback based on this engagement session and will expect to report back to the OEB and intervenors in Q1 2022



Appendix – Past Stakeholder Feedback on Procurement Fees

Past Stakeholder Feedback, Continued (from slide 13)

<p>To avoid attrition of projects and to ensure that the procurement process meets its objectives, we recommend that the OPA require Proponents to post significant financial security with their RFP bid. If the financial security requirement is not high enough, some Proponents may view the bidding process as an option rather than as a firm commitment, regardless of whether the RFP terms indicate that bids are binding on the Proponent.</p>	GDF Suez/ Engie
<p>For the RFQ process specifically, we recommend that only experienced and financially capable proponents be qualified past the RFQ phase, so that communities and other potential partners are assured of the seriousness and feasible nature of the proposed projects.</p>	Innergex
<p>We agree with the completeness criteria and the proposed RFQ Fee (LRP I)</p>	NextEra
<p>We believe that the RFQ submission fees should be set relatively high at \$2,500/MW to a maximum of \$100,000 per applicant in an effort to reduce speculative applicants. We also recommended that an applicant should be required to have a tangible net worth of \$1,000,000/MW for all projects submitted by the same applicant. The fees and tangible net worth could be set higher if the OPA would like to discourage speculative applicants from participating in this RFQ.</p>	EDF EN
<p>With regards to the LRP RFQ fee, we think the propose fee is too low for larger projects and proponents. We suggest for projects greater than >25MW set RFQ application fee at \$100/kW</p>	Invenergy