

JULY 25, 2024

Transmitter Selection Framework Focused Engagement Session #5

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Purpose

- Seek feedback on the latest Transmitter Selection Framework (TSF) design considerations to be included in the IESO's report back to the Minister in September.
- Provide a summary of the feedback gathered during TSF engagements and explain how it has reflected in the TSF design considerations.
- Identify areas where the IESO will need to continue engaging and soliciting feedback following the report back.

Agenda

1. TSF Engagement Recap

- Engagements and summary of feedback thus far
- Engagements expected post-report back

2. TSF Design Considerations within Report Back

- TSF Rationale and Process Overview
- Transmission Planning Considerations
- Qualified Transmitter Registry
- Proposal Evaluation Considerations
- Commercialization Framework
- Indigenous Participation

3. Next Steps - Post-Report Back

4. Discussion



TSF Engagement Recap

Review of TSF Engagement Approach

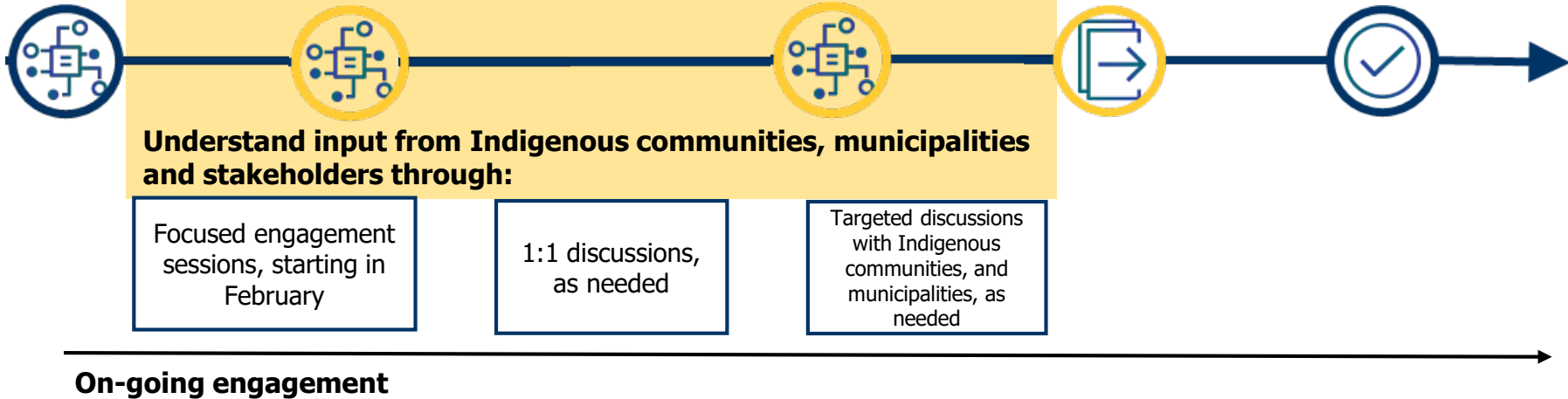
December 2023
Kick-off

February-July
Focused Engagement Sessions

April – August 2024
Process Design and Report Development

September 2024
Report back to Minister of Energy

Q4 2024 & Onward
Continued TSF development and implementation (pending Minister direction)



Focused Engagement Sessions Dates and Topics

Focused Engagement Session	Topics	Dates
Session #1	TSF Context/Level Set and Preliminary Procurement Process and Commercial Considerations	February 29, 2024
Session #2	Preliminary Technical Considerations and Transmission Planning	March 27, 2024
Session #3	Preliminary Indigenous Participation Considerations	April 24, 2024
Session #4	Evolution of Transmission Planning and Engagement to support competitive transmission development	June 19, 2024
Session #5 (Today)	Commercial Considerations, Technical and Procurement Process Considerations, Indigenous Participation, and expected next steps	July 25, 2024

Engagement – Feedback and Response Document

- The IESO has received significant feedback to date and will be posting a fulsome engagement feedback and response document shortly.
- The feedback and response document will be available on the TSF Engagement page.
- In the upcoming slides, we will highlight some of the most common and relevant feedback we have received from previous sessions (Indigenous and Stakeholder) as well as some key points of feedback from the document with our responses.

The IESO continues to welcome feedback following today's session

Indigenous Community Feedback (1)

- Indigenous communities have highlighted how their early involvement in transmission planning and project development will be critical to successfully building infrastructure in Ontario.
- There should be a variety of flexible economic participation options for First Nations and Indigenous groups impacted by a given transmission project under the TSF.
- Participation options should include ownership, equity, and other forms of economic participation (e.g. training & development, supply chain opportunities and capacity funding).

Indigenous Community Feedback (2)

- Communities cannot endorse a specific approach for Indigenous participation in the absence of project details.
- First Nations and Indigenous groups have a desire to participate in and receive benefit from projects over the life of the asset (e.g. not just during development/construction but also through the operations and maintenance phase).
- Capacity barriers will need to continue to be addressed to ensure First Nations and Indigenous groups are able to participate in the planning and procurement processes.

Stakeholder and Transmitter Feedback

- Stakeholders and developers are generally supportive of a TSF; risks noted with the introduction of the TSF contributing to the delays of critically-needed Tx infrastructure.
- There is general support for use of the Rate Regulation process for projects under the TSF.
- There exists some concern over existing transmitter advantage within Ontario with a recommendation that fairness measures should be explored.
- There is general support for the proposed TSF eligible project and technical criteria.
- Stakeholders and developers are seeking continued transparency and dialogue related to transmission planning activities to promote participation and fairness under the TSF.

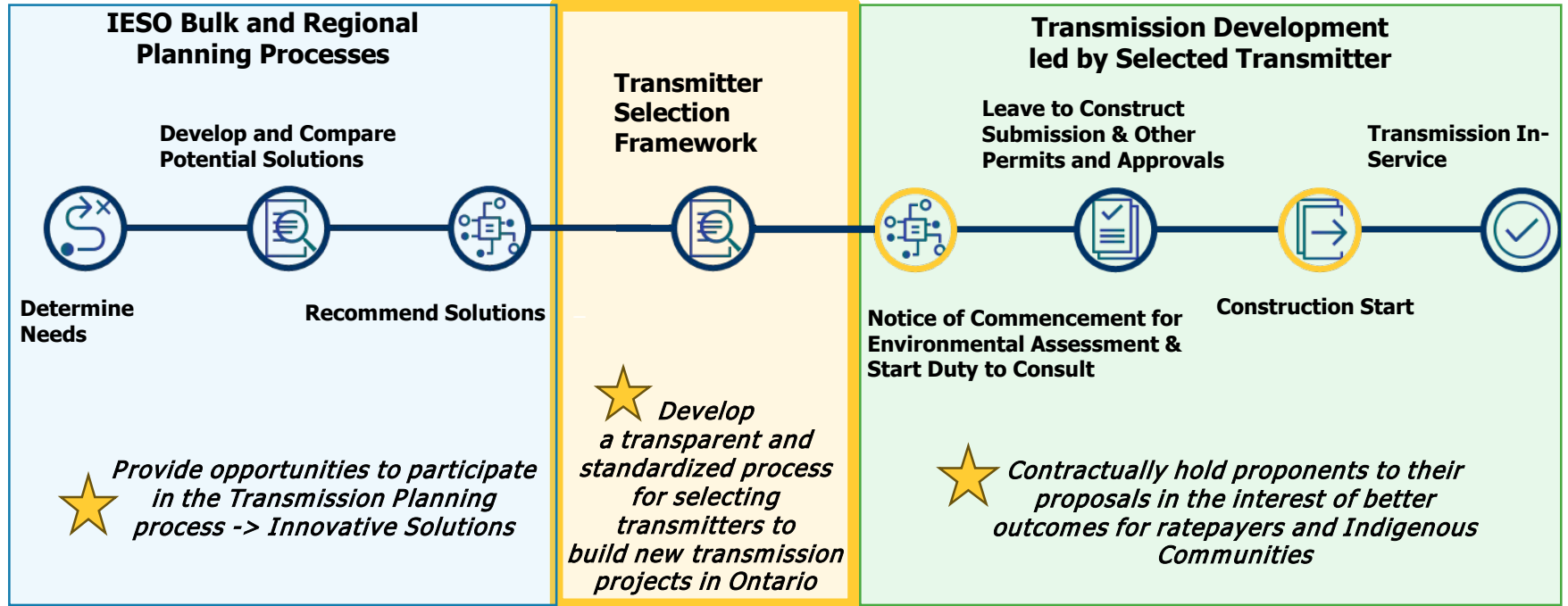
Engagement – Key points of feedback and responses

Feedback	IESO Response
Implementation of a TSF must ensure it does not impact timely development of critical projects needed for reliability	Timing of need to be critical determinant of whether a project will proceed through TSF; projects lacking sufficient time for a competitive procurement will follow the current process – whereby an existing transmitter would be designated to develop and build urgently required transmission projects.
There needs to be transparency and fairness in the transmission planning and procurement process for all developers	The IESO is reviewing design considerations with regards to levelling the playing field for all qualified transmitters to participate in future competitive selections under the TSF.
First Nations and Indigenous groups affected by a project must be provided with opportunities to participate within the project (e.g. through equity)	Overarching TSF design features will be recommended to support meaningful Indigenous participation, while leaving room for per-project/per-RFP design features to be developed based on the specifics of a given project
Design of Indigenous participation features for RFPs under the TSF should take a principled approach and be informed by the potentially impacted First Nations and Indigenous groups	The IESO will adhere to proposed principles when undertaking engagements and design for a given RFP under the TSF; Each RFP will be designed in a transparent manner and will be informed by engagements with the potentially impacted communities



TSF Rationale and Process Overview

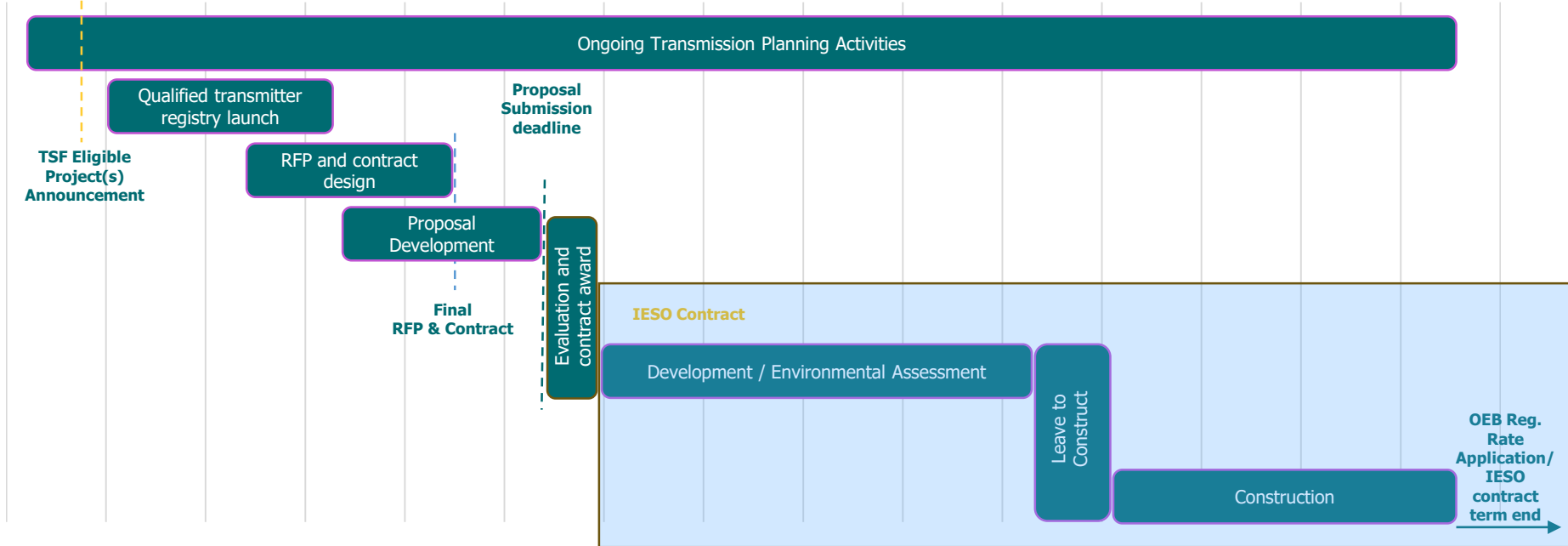
Transmission Selection Framework – Rationale & Goals



Current Transmitter Selection Approach

- Currently, there is no standardized process for selecting a transmitter to build new transmission projects in Ontario.
- Previous attempts of transmitter selection processes lacked direct linkages between proposals and the eventual outcomes for the project (i.e., no contractual obligation tied to proposals).
- Without a binding contract, it is challenging to hold proponents to their proposal parameters (i.e., cost, timelines, technical requirements) limiting effective oversight of the project.
- Historically, most new transmission projects have been designated to the incumbent for development and construction. Looking ahead, the IESO sees significant transmission buildout being key to support growing demand; necessitating a process that yields cost effective outcomes in a transparent manner.

TSF – High-Level Process Overview



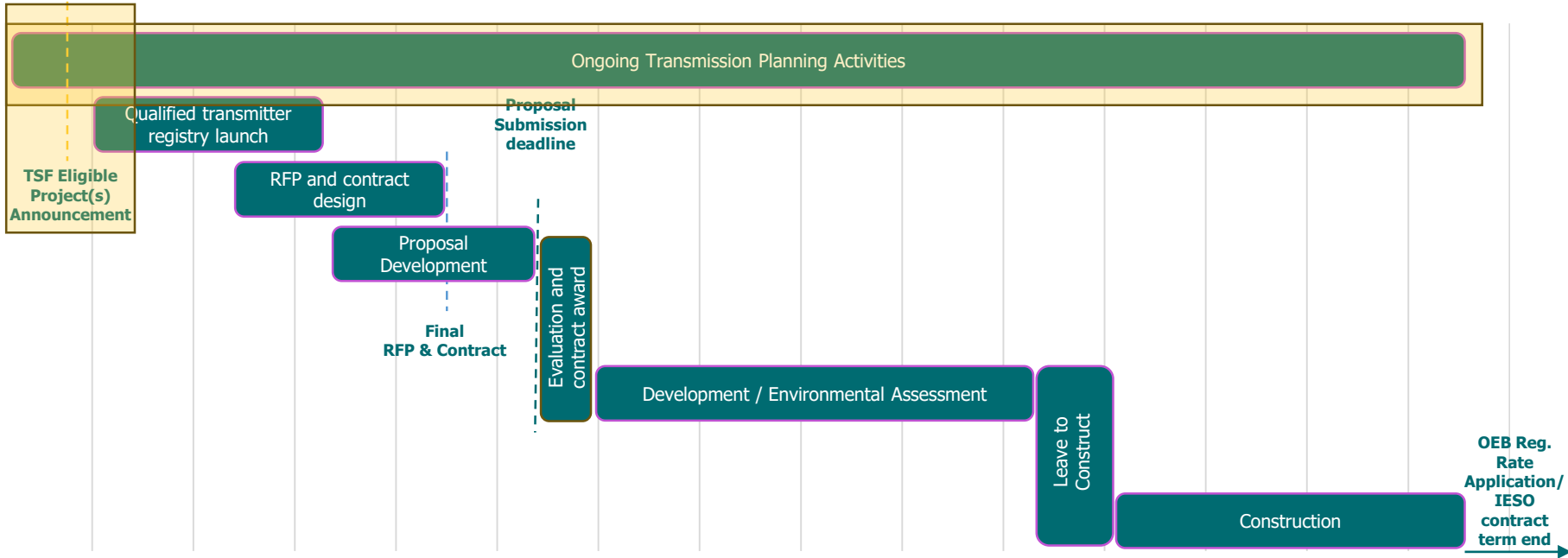
TSF High Level - Process Overview

- Phase 1: Transmission Planning - *Project Eligibility Criteria & TSF Communication*
- Phase 2: Qualified Transmitter Registry - *Qualification Requirements*
- Phase 3: RFP and Contract Design - *Commercialization Framework*
- Phase 4: Proposal Development - *Commercialization Framework*
- Phase 5: RFP Evaluation and Contract Award - *Evaluation Considerations*
- ****IESO Contract Start***
- Phase 6: Project Development (Transmitter-Led)
- Phase 7: Rate Application with OEB - *Commercialization Framework*
- ****IESO Contract End***



Transmission Planning Considerations

Transmission Planning Considerations



Project Eligibility Criteria - Initial Procurements

Transmission recommendations (flowing from IESO transmission planning activities) will be assessed against the TSF eligibility criteria.

Transmission projects that satisfy the eligibility criteria will be deemed suitable for the TSF.

Eligibility is expected to evolve as more experience is gained with transmission procurement.

TSF Proposed Eligibility

- New Facilities
- Benefit all electricity ratepayers
- Estimated cost of \$100M or greater
- Nominal voltage of 200 kV or greater
- Sufficient lead-time (at least 6 years)

Transmission Planning - TSF Related Communication

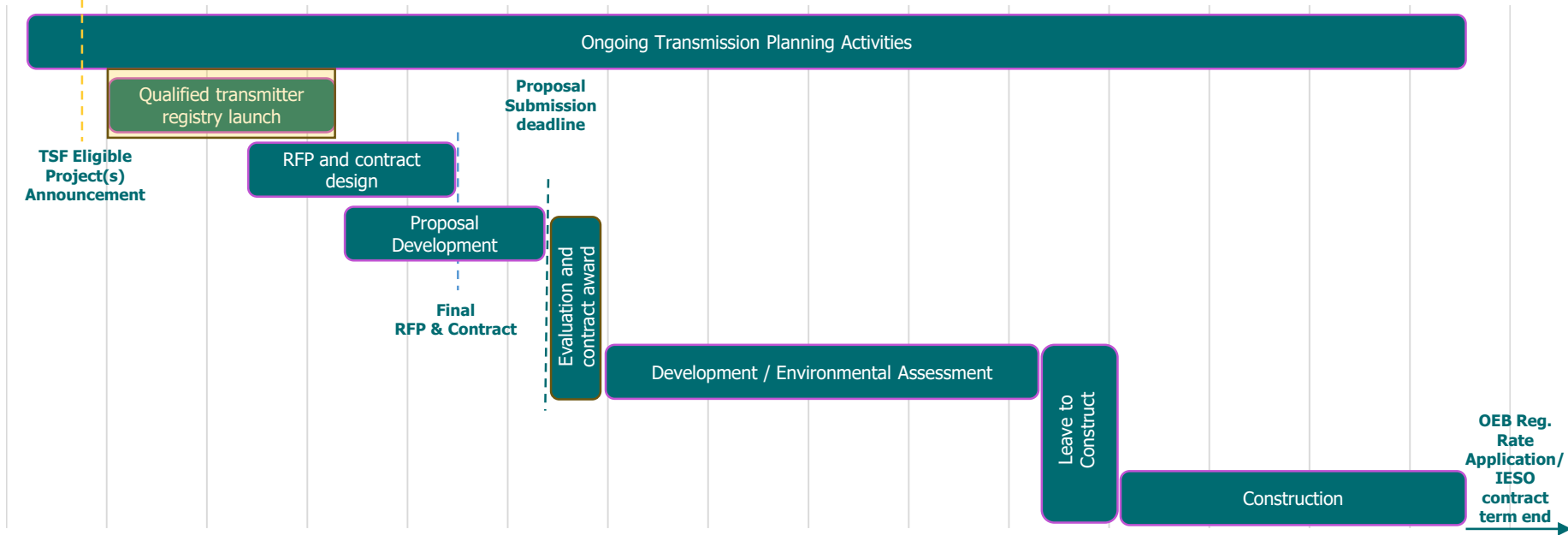
The previous focused engagement sessions identified the following opportunities for future communication related to the TSF.

- The Annual Planning Outlook will provide a snapshot of transmission needs, plans underway and plans to be initiated with proposed timelines.
- Bulk Study Quarterly Updates (at IESO Monthly Engagement Days).
 - Regular updates on bulk planning, including the bulk planning interactions described in the bulk planning engagement roadmap.
 - TSF-focused updates will occur bi-annually during the Quarterly Updates.
- Additional engagements on all transmission plans outside the quarterly updates, if needed, and ad-hoc announcements.



Qualified Transmitter Registry

Qualified Transmitter Registry



**For illustrative purposes only*

Qualified Transmitter Registry - Rationale

- To expedite the procurement process, the IESO will pre-qualify transmitters through a registry, replacing the need for an RFQ process for each procurement.
- The IESO is considering opening a flexible submission window for applicants to achieve Qualified Transmitter Status, the intent will be to build out the registry initially for the first few procurements.
- Once a transmission project has been identified for procurement and an RFP design process is underway, the IESO will likely close the qualification window following a 'last call' for transmitters to apply for the registry.
- Having an ongoing qualified transmitter registry will save 6-8 months vs running an individual RFQ for every procurement.

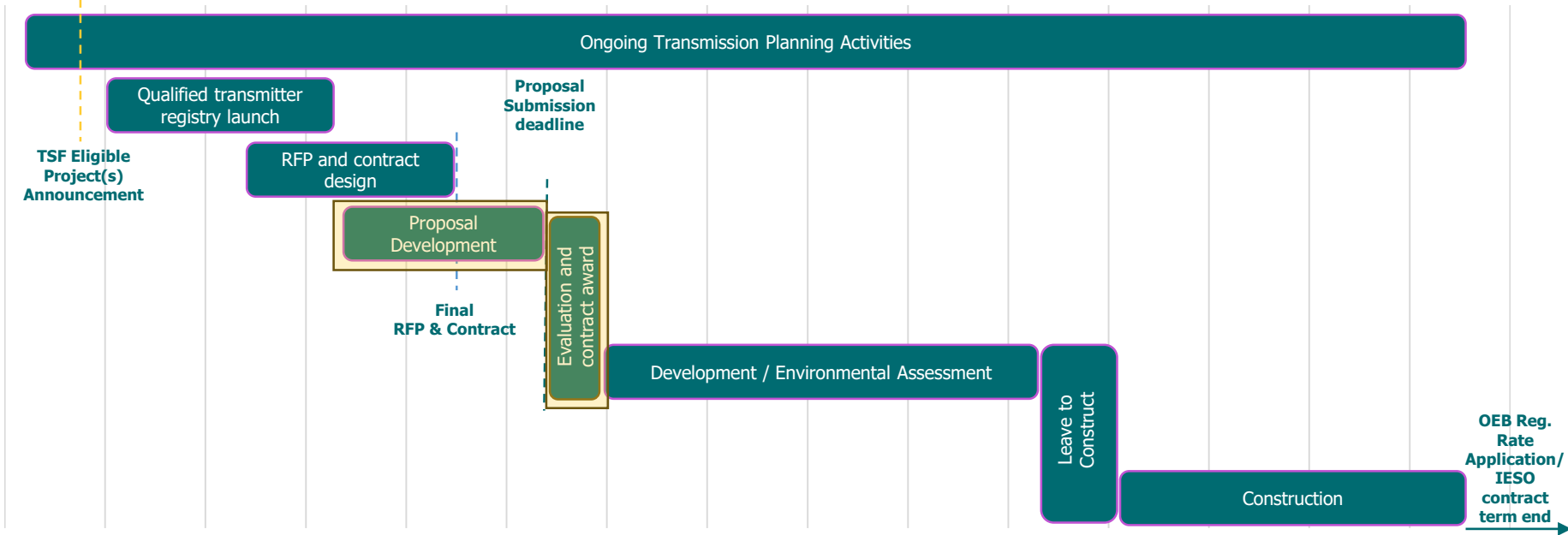
Qualified Transmitter Registry - Requirements

- In general, applications will be evaluated based on transmitters' technical experience, financial strength, and track record in transmission development.
- Technical experience may include providing details on facilities developed, constructed, owned, and/or operated.
- Financial criteria may include credit ratings, access to capital, financial statements, articles of incorporation, and/or affiliates.
- The IESO expects that while qualification may be done at the corporate/organizational level, Special Purpose Vehicles (SPVs) or Limited Partnerships (LPs) would be formed at the RFP stage.
- Expectation is that qualified transmitters will have to re-certify at regular intervals and will be responsible for informing the IESO of any material changes.



Proposal Evaluation Considerations

Proposal Evaluation Considerations



**For illustrative purposes only*

Proposal Evaluation Considerations (1)

- The IESO will evaluate proposals based on criteria that can then form contractual requirements related to cost containment, Indigenous engagement and economic participation, risk allocation, technical requirements, and project timelines and milestones.
- Evaluation should ensure that proponents are able to do the following: to complete the transmission project at a competitive cost, deliver the project on schedule, and have the experience and capability for meaningful consultation with impacted First Nations and Indigenous groups.
- IESO is developing the evaluation principles and criteria (that can later form contractual provisions) and will continue post report back. Evaluation criteria may differ from project to project and IESO remains flexible to engage on these preliminary considerations.

Proposal Evaluation Considerations (2)

IESO proposal evaluation will be guided and influenced by the following principles:

Guiding Principles

Cost	Meeting all requirements at the lowest overall cost
Certainty	Providing a high degree of certainty and predictability
Risk Mitigation	Reflecting the lowest risk to success of the project and optimal performance
Specificity	Providing a high degree of specificity and detail

Proposal Evaluation Considerations (3)

Evaluation Criteria Considerations

Project Cost and Design (Total Revenue Requirement, Cost Containment Commitments, Risk Allocation, Electrical & Structural Design, Innovation)

Project Implementation Capabilities (Project Management Plan, Key Resources, Experience, Development and Construction Schedule, Routing, Land Acquisition, and permitting)

Indigenous Participation (Terms of participation model, Experience with Consultation, Financing Support, Capacity Building, other economic participation mechanisms)

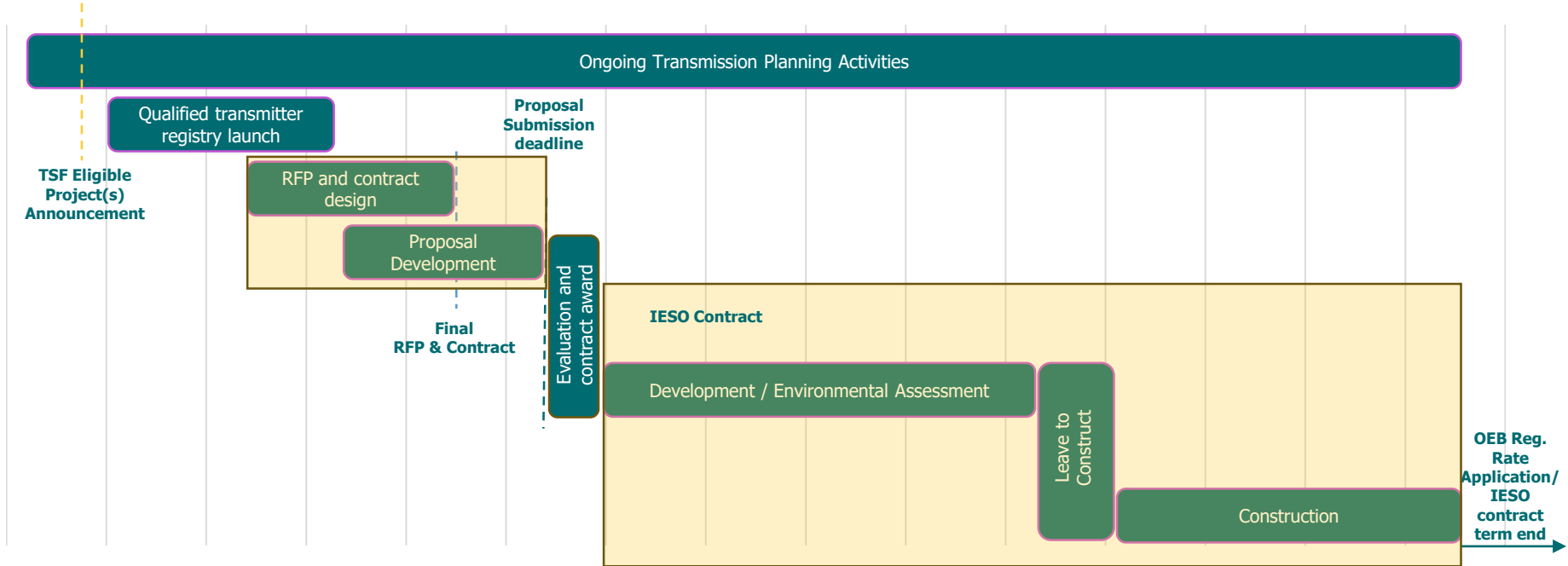
Financial Planning (Financing strategy, Organizational Structure, Equity)

Operations & Maintenance (Safety, Repair, Replacement Capabilities)



Commercialization Framework

TSF – Commercialization Framework



**For illustrative purposes only*

Commercial Framework at a Glance

- In order to support the growth of the transmissions system and the selection of new transmitters in an effective manner; a commercial framework that supports timely project development, shares risks effectively and ensures ratepayers are protected, will be crucial.
- There are several commercial options/contracting approaches that have been used in Canada and in other jurisdictions to effectively support transmission development.
- Applying lessons learned from those approaches, the IESO is seeking to put forward a commercial framework that considers the unique nature of the Ontario electricity sector as currently constituted, while acknowledging the key role that Indigenous communities have in supporting project development.

TSF Commercialization Framework Considerations

Contracting Options: A broad spectrum of contracting approaches are available between IESO and transmission developers.

- These options range from:
 - 1) The selection of a transmitter for a project by the IESO and immediate transition to rate regulation oversight by the OEB to;
 - 2) Full contracting for the entire life of a project (40+ years)

Key Goal: Establish a commercial framework that emphasizes enhanced cost certainty and risk management, while working within the existing rate regulation framework.

- The overall objective should be to leverage competition to achieve better outcomes for ratepayers, by holding proponents to their proposal costs and schedule, as well as their commitments to First Nations and Indigenous Groups.

Partial Contracting Approach (1)

Based on stakeholder feedback received and weighing the benefits of a variety of options, the IESO has determined that the optimal approach to achieve the TSF's goals and objectives is through a partial contracting approach.

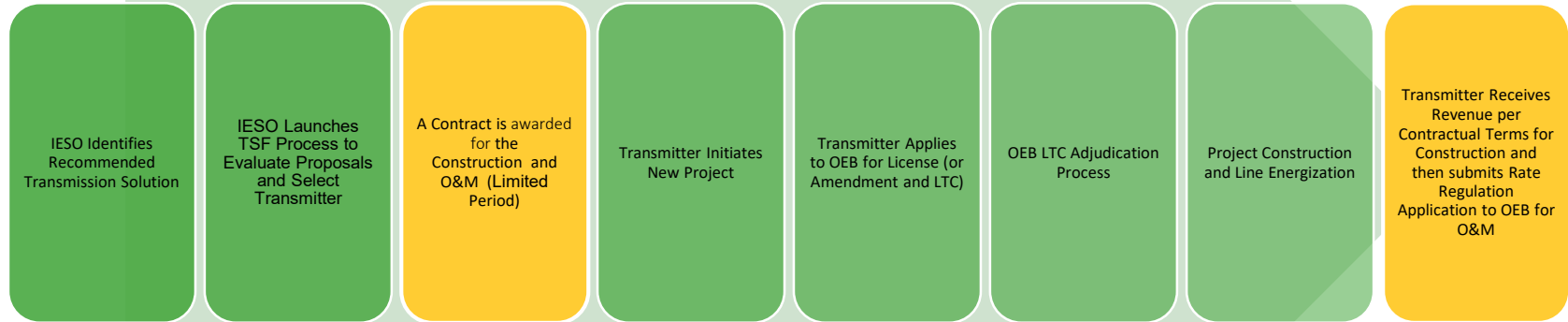
- **Process Overview:** Once the IESO has evaluated all proposals and a winning transmitter is selected, the IESO and the transmitter would enter into a Transmission Project Agreement/Contract covering the elements of design and construction until Commercial Operation Date (COD).
- Upon project completion, the project will be transferred over to the OEB, and the transmitter will file an application for rate regulation.
- It is expected the OEB will ensure that the transmitters' commitments are upheld for the remainder of the transmission asset's lifecycle.

Partial Contracting Approach (2)

This partial contracting approach will allow the IESO to:

- Implement effective cost containment and risk allocation measures, including the creation of a maximum initial rate base for OEB rate regulation.
- Include terms and requirements to ensure Indigenous participation opportunities.
- Ensure regulatory alignment throughout the process.
- Create a transparent and fair process for proponents.
- Leverage existing transmission processes and regulations to the extent possible.

TSF Partial Contracting Approach



Partial Contracting Approach - Challenges

- The IESO recognizes that the timing for a contract to conclude at COD may not provide sufficient cost controls.
- There is a potential risk of material/upgrade costs being brought forward in the short-term following COD through OEB rate application.
- A contract terminating at COD may help control construction/capital cost. However, this model does not address operation and maintenance (O&M).
- Proponents may be incentivized to propose less costly development solutions to succeed in the procurement, and later submit additional O&M costs through the rate regulation process resulting in higher overall total project costs (included in future Uniform Transmission Rates (UTRs)).

Partial Contracting: COD+ Approach (1)

Recommended
Approach for TSF



Recommendation: In order to address the issue of providing oversight to manage O&M costs following COD, the IESO is recommending that an ideal time for a partial contract to conclude would be a short period after COD ("**COD+**").

Process Overview: This COD+ contract will fix the O&M costs and developers would be required to include a lifetime O&M plan in their proposal.

- The transmitter will be required to submit prescribed amounts to the OEB for review via a cost-of-service application.
- The transmitter's revenue requirement, including some or all post-COD revenue, would be fixed via contract and incorporated into UTRs.
- After the IESO contract expires, traditional OEB rate regulation would apply, subjecting all cost components to OEB for review and incorporation into UTRs.

Partial Contracting: COD+ Approach (2)

Ongoing Process Development:

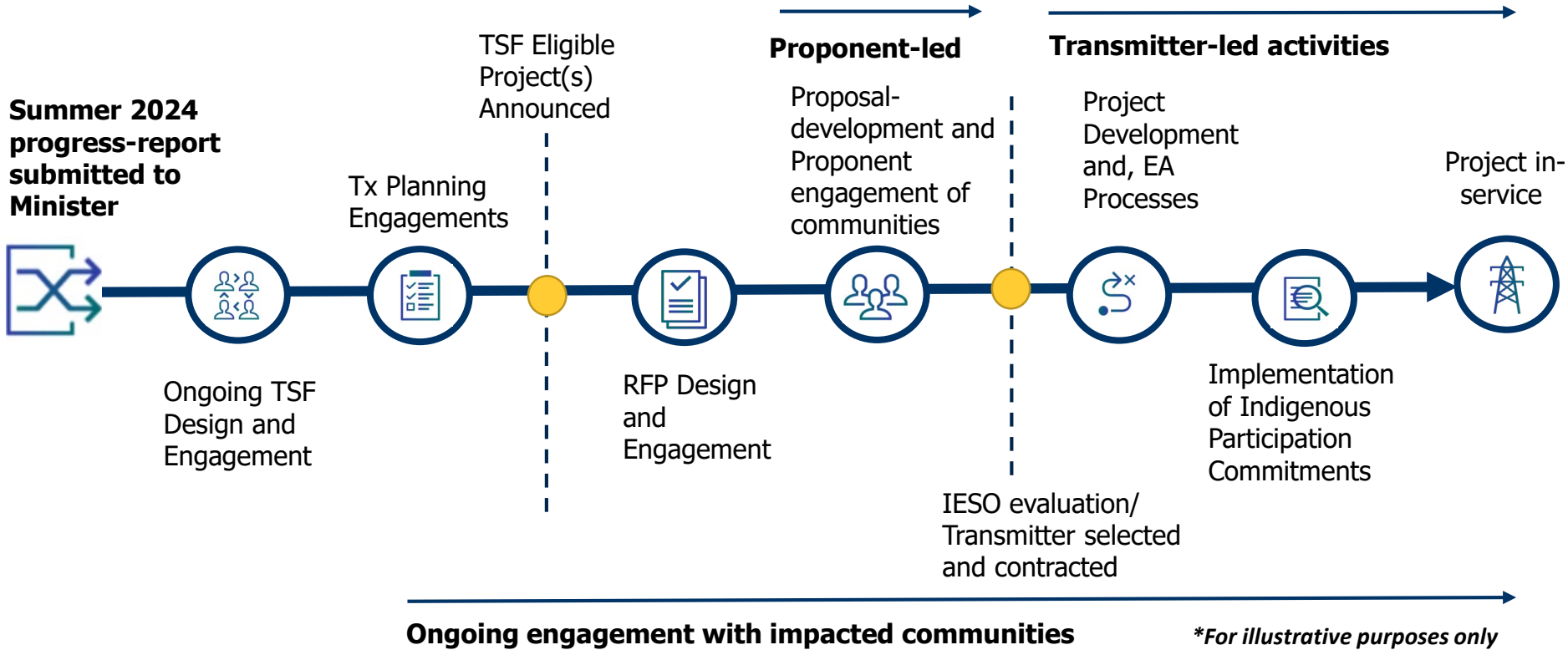
- Engage in ongoing discussions with the OEB to achieve regulatory alignment and determine the best path to ensure there is a clear and straightforward transfer of project oversight.
- Continue to analyze various scenarios and mechanisms to encourage timely project delivery. These include identifying proper milestones for updates, meaningful performance security requirements, default and liquidated damages, and force majeure relief.
- Determine the appropriate length post-COD that the IESO should maintain the contract.

The IESO is seeking feedback on the proposed commercialization approach, does it promote competition and safeguard ratepayers against project risks?



Summary of Indigenous Engagement and Participation Opportunities

Engagement and Participation Opportunities for Indigenous Communities



**For illustrative purposes only*

Supporting Indigenous Participation under the TSF (1)

- Each transmission project will be unique, and the resulting RFP will need to be designed to reflect the unique circumstances and considerations associated with a given project.
- Design of an RFP will include the development of project-specific Indigenous participation requirements and selection criteria.
- This RFP design process will be undertaken in a public manner, and will seek input from potentially impacted Indigenous communities through the process.

Supporting Indigenous Participation under the TSF (2)

- The development of project-specific Indigenous participation design features will follow a principled approach, in accordance with the proposed guiding principles we will share in today's session.
- In addition to the proposed principles, the IESO will identify some potential overarching design features associated with the TSF and commercial arrangement, to be included within the report to the Minister.

The IESO welcomes feedback on the items outlined during today's session, and will continue engaging with Indigenous communities to understand their perspectives.

Overarching TSF Indigenous Participation Features (1)

Requirements for Proponents (at time of proposal submission)

- Must be able to demonstrate Indigenous project and partnership experience at time of proposal submission (specific criteria TBD and will be designed as part of the RFP design/engagement).
- Must not bind communities to exclusivity arrangements (i.e. potentially impacted Indigenous communities should have the ability to engage with or partner with different proponents if they so choose, including after the conclusion of the procurement).
- Must develop (and submit within their proposal) an Indigenous Participation Plan (IPP); The IPP must identify participation opportunities for each of the potentially impacted Indigenous communities.
- IPPs that have a higher overall level of Indigenous participation, and which are informed and/or endorsed by the potentially impacted communities may be scored higher in the IESO's evaluation.

Overarching TSF Indigenous Participation Features (2)

Requirements for Transmitters (Post-selection)

- The developer selected through the TSF will be *required* to engage with and offer economic participation opportunities to First Nations and Indigenous groups impacted by the project.
- The IESO will make binding on the developer the commitments made within their IPP; The developer must make all commercially reasonable efforts to work with and finalize participation agreements with the impacted Indigenous communities by a milestone date as set out in the contract (e.g. 1 year following COD).
- The IESO may include a mechanism within the IESO-transmitter contract to ensure benefits flow to communities in the event that participation agreements are not executed with the impacted communities by the required milestone date.

Overarching TSF Indigenous Participation Features (3)

Opportunities for involvement by communities

- Communities potentially affected by a transmission plan or project will be engaged by the IESO as part of the planning process.
- Once a project has been identified for the TSF, the IESO will continue engaging communities on the specific RFP design and form of contract.
- Once an RFP process has commenced, Proponents will be encouraged to engage the impacted communities to inform the development of their IPP.
- Once a developer has been selected, the developer will be required to work with the impacted communities to deliver on the participation options set out in the IPP.

Guiding Principles for Indigenous Participation (1)

The IESO will undertake TSF procurements in accordance with the following Indigenous Participation Guiding Principles:

- *To inform a competitive transmission procurement, the IESO should engage with First Nations and Indigenous groups in a meaningful and timely manner, to help enable the IESO to identify and understand Indigenous rights, interests, priorities, and potential barriers to participating as desired in new transmission projects.*
- *Engagement with First Nations and Indigenous groups that are potentially impacted by a given transmission project should begin during the early Transmission Planning stage, continue through design of the procurement and during the construction phase of the project. First Nations and Indigenous groups should be given the opportunity to participate in the ownership, development, construction and/or long-term operation of the facility.*

Guiding Principles for Indigenous Participation (2)

- *The IESO will seek to provide opportunities for capacity building for First Nations and Indigenous groups, organizations, businesses and peoples to enable those communities to meaningfully engage with the IESO, developers, and participate in the project being procured.*
- *The IESO will further develop and update these principles based on lessons learned from competitive transmission procurements under the future Transmitter Selection Framework, including addressing feedback gleaned during engagements. When considering updating these principles, the IESO will engage with First Nations and Indigenous groups to obtain their input.*



Next Steps – Post Report Back

Areas Requiring Further Development and Engagement

Following the September Report Back to MOE, the IESO will continue developing and advancing the TSF - refining its design, particularly regarding these key areas:

- *Indigenous Participation Considerations*
- *Details of the Transmitter Qualification Registry*
- *Further elaboration on the TSF Commercialization Framework and the associated regulatory impacts and considerations*
- *Considerations for project evaluation criteria*
- *Considerations on fairness and transparency measures*

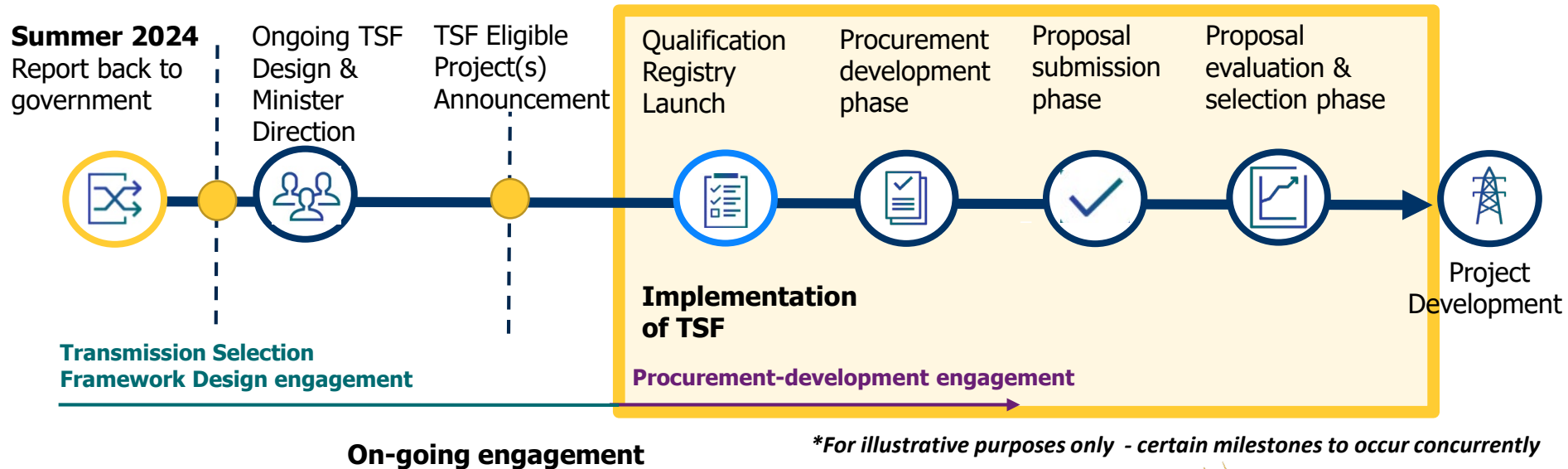
The IESO will continue to prepare the TSF for readiness pending a Ministerial Directive to procure a transmitter for the development of an eligible transmission project.

Engagement Expectations Post-Report Back

- The IESO will maintain ongoing engagement with First Nations and Indigenous groups and stakeholders after the TSF report is delivered to the Minister, to gather further insights and enable readiness for the initial procurements under the TSF.
- Additionally, the IESO will continue to host public engagement sessions to seek feedback on TSF design considerations. The IESO will also continue to conduct 1:1 outreach sessions with communities and stakeholders as necessary.
- Opportunities will be available during Transmission Planning Engagements on Bulk System Studies to learn about potential TSF-related projects.

TSF – Illustrative Timeline Post-Report

The TSF aims to streamline timelines whenever possible, though changes can occur due to transmission project complexity. This underscores the importance of ensuring adequate time between identifying a Transmission needs and achieving a Resource In-Service date.





Discussion

Questions

Your feedback is important. The IESO is hoping to understand:

1. In your view, does the proposed "Partial Contracting Approach" sufficiently:
 - Safeguard ratepayers against project risks?
 - Promote competition?
 - Promote Indigenous Participation?
2. Does a flexible application submission window for a qualified transmitter registry meet developers/stakeholders needs?
3. Has the IESO captured all the necessary evaluation guiding principles and criteria within an expected transmission project proposal?
4. What criteria should be considered to assess a proponent's experience with Indigenous participation and partnerships?

Next Steps

- A Feedback Form will be made available on the **TSF Engagement Page**. IESO is requesting feedback by **August 9, 2024**.
- All written feedback should be submitted to [**engagement@ieso.ca**](mailto:engagement@ieso.ca)
- As mentioned, the IESO will be completing the report back to the Minister of Energy on the progress of TSF development in September, however engagement on the design of the TSF will continue post-report back, these would include:
 - First Nations and Indigenous groups Focused Sessions/Workshops - **Planned for September**
 - Additional Focused Engagement Sessions on specific design topics/considerations - **Timing TBD**
- We will remain flexible on receiving input regarding TSF development – contact us if you are interested in setting up a 1:1 meetings directly with the IESO to discuss any of the topics explored today, or other topics relevant to the TSF.

Thank You

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Appendix - Transmitter Selection Only Approach & Full Lifecycle Contracting Approach

Transmitter Selection Only Approach

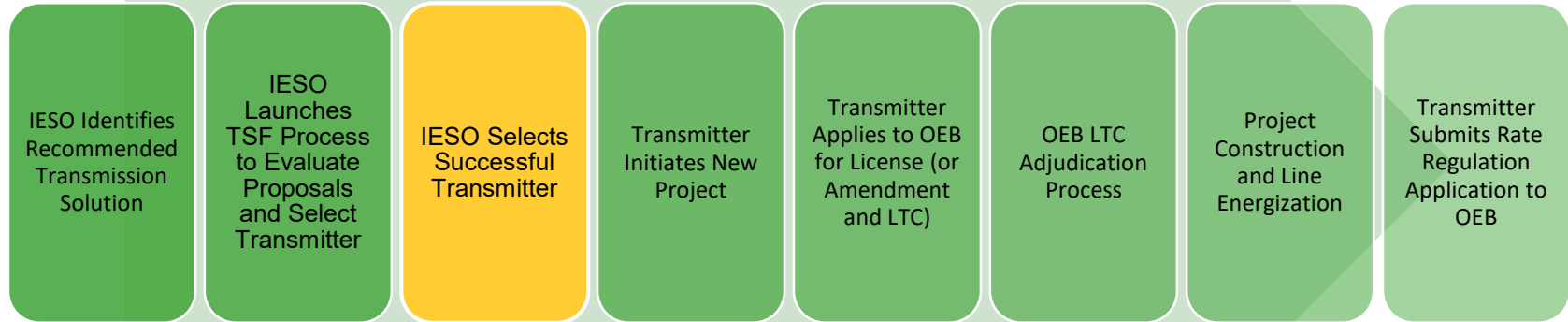
Process Overview: IESO issues an RFP (or equivalent), selects a transmitter for the project, and the transmitter adheres to the current OEB rate-regulated and transmission development process.

Key Challenge

Lack of Binding Commitment: Selecting a transmitter based on proposals that contain unenforceable criteria does not yield the best results for ratepayers. Enforceable criteria is required to ensure transparency and binding commitments from the proponent post-selection.

- The IESO needs a process to hold the winning proponent accountable to their evaluated proposals. Without enforcing proposal commitments, there is a higher risk of cost inflation and concerns that the best proposal was not selected, effectively hindering the TSF's goal of achieving better outcomes for ratepayers and First Nations and Indigenous groups.

TSF Transmitter Selection Only Approach



Full Lifecycle Contract Approach

Process Overview: IESO and the transmitter will enter into a Transmission Project Agreement/Contract, covering the entire asset lifecycle (40+ years) with defined clauses on cost, schedule, risk, cost containment, Indigenous participation, development, construction, O&M, Force Majeure, etc.

Key Challenges

Limited Support: Stakeholders would generally not prefer this option due to risks associated with locking in costs over a long-term contract, financing challenges, misalignment with current regulatory processes, and administrative burden.

Cost Implications: There is a cost premium for the uncertainty and developer-risks associated with contracting for the entire project life.

Flexibility Concerns: The contract may lack options to revise or reopen terms in response to changing market conditions or technological advancements.

TSF Full Contracting Approach

