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ORTECH Power Points™

RFP II – Very Competitive Capital

by

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The results of Ontario's Renewable RFP II reflect how important low cost of capital is in winning 20-year power purchase agreements (PPA). Noteworthy characteristics of the nine winning projects were:

- 1) Eight of the projects were large wind projects; only one was waterpower. This result is more a reflection of the cumbersome regulatory system related to obtaining and permitting waterpower projects than any inherent economic disadvantage. This may highlight that more political will is needed to remove development obstacles before we will see significant waterpower proposals in northern Ontario.
- 2) Three projects were expansions of wind projects awarded in Ontario's RFP I last year. This may indicate that the expansions created some economic advantages related to transmission connection sharing or other efficiencies that contributed to the win.
- 3) Five of the projects were new wind farms and not expansions, suggesting that capital cost alone was not the main distinguishing factor in the bids.
- 4) The wind projects are all located in good wind regime areas, but subtle differences are known to exist among these areas, suggesting that wind regime alone was not the main distinguishing factor in the bids.

It appears that the most important factor in winning was access to low cost capital. Most of the projects appear to have been backed by bidders with excellent access to cost effective capital, including Brookfield, Epcor, Enbridge, and Canadian Hydro Developers. The latter two made the list with multiple winning projects.

The average price of the successful RFP II bids was quoted at \$86.40, compared to approximately \$80 in RFP I last year. Adjusting for the significant increases in turbine supply

prices (ORTECH estimates turbines have increased in price approximately 15% between the two bid dates), RFP II may have been even more competitive than RFP I last year. ORTECH attributes this strong competitiveness largely to improved efficiencies in debt financing and low ROE expectations by equity providers.

Based on ORTECH's in-house model assumptions on average capital costs, operating costs and Ontario wind resource for the winning projects, it appears to us that the ROE for these projects is likely under 10%, assuming 60% long-term debt at current rates. Given that these projects have inherent construction, wind resource and operating risks ahead of them, such a low ROE is extremely competitive. It is our perspective that a low cost of capital is the most important factor in obtaining supply contracts, and ranks ahead of inter-project variability in capital cost and wind resource.

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