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Ontario RFP III Draft is Available

by

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Ontario released the draft version of the third request for proposals for renewable energy supply (RFP III) on July 12, 2005. . . .And, it contains some surprises!

RFP III is remarkably similar to its predecessor, RFP II, in many of its basic requirements although RFP III is presumably intended to address an entirely different market. RFP III appears to have been conceived to give numerous small projects a chance to bid without having to compete head-on with larger facilities on price. Such projects include the many smaller development prospects in Ontario (such as run-of-river hydro), that simply cannot be scaled to a larger size like a wind farm, but that have a valuable contribution to make to the electricity grid, nevertheless.

The smaller nature of the solicited projects may also imply a different kind of developer. These could include smaller municipalities or private businesses with limited resources. Therefore, it was anticipated that RFP III would be substantially different in approach than its larger cousin. Specifically, one might have speculated that factors other than price might be considered in the 'small project' competition, such as local benefits or unique project features. Instead, RFP III is nearly identical to RFP II in that the selection procedure is based solely on the energy bid price. While RFP III projects do not have to compete with larger projects, the price competition will be fierce nonetheless and keep disadvantaged technologies or project sites off the winners' list. Indeed, this approach is consistent with Bill 100 and the mandate of the OPA, so perhaps it is not a surprise but rather a reality check for wishful thinking on the part of the project developers.

A noteworthy aspect of RFP III is that certain existing renewable energy facilities that were built since October 30, 1998 are allowed to bid. This feature appears to represent a window of opportunity for 'early movers' or 'orphans', as they have been referred to in some circles, to get a fair market opportunity. Orphans are a select few small generating facilities that were

built by the private sector under the promise of a fully deregulated market system and whose intended market evaporated with the abrupt halt to electricity retailing in November, 2002 and the later conversion to a hybrid market system. There were only a handful of such facilities built and it is encouraging to see this file cleaned up as part of RFP III.

The intent of RFP III is to award 20 year contracts for up to 200 MWs of mostly new capacity or expansions, with a 20 MW limit per project and a 40 MW limit per proponent. The latter limit is consistent with previous RFPs and is meant to foster competition by having more than one entity win a contract. Projects have to be operational by October 31, 2009 and receive an incentive if completed a year early.

Each project has to meet certain minimum technical and financial requirements, the language for which is largely taken from RFP II. These requirements include demonstrating fairly basic progress on issues of land control, permitting, engineering and grid connection. The latter is a relatively costly and, hence, challenging item for smaller projects, making it likely that developers will seek a toning-down of this requirement before the final version of the document is released.

As with RFP II, financial wherewithal is a cornerstone of RFP III, thus ensuring that a project has the necessary backing to proceed to construction if it wins a contract. For example, Tangible Net Worth of \$125,000/MW to \$500,000/MW is required for new projects depending on the level of debt proposed in the financing plan. Other jurisdictions have had unhappy experiences with projects that won contracts, but failed to build. Ontario's staunch insistence on adequate bid security, financing plans and balance sheet backing is frustrating to developers, but likely necessary to avoid embarrassment to both the renewable industry and the buyer.

Lastly, the complex selection process introduced for RFP II is mirrored in RFP III. It consists of a first round where those projects with the lowest bid prices that amount to ~90 MWs of capacity are selected before the remaining ~110 MWs of projects are chosen. These projects will be chosen if and only if, the price for the remaining 110 MWs does not exceed 110% or at the buyer's discretion, 115% of the average price for the first 90 MWs. As one can readily calculate, a situation could arise where only part of the total 200 MWs is awarded under this selection scheme, particularly because the smaller projects are likely to vary more in technology and project specific factors, and, hence, power prices, than their larger cousins in RFP II.

If you require further information on the above, please do not hesitate to contact us. We would be pleased to assist you with your renewable projects.

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