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ORTECH Power Points™

Renewables RFP II

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On April 22, 2005 the Ontario Ministry of Energy released its draft Request for Proposals for up to 1,000 MW's of Renewable Energy Supply. This release of RFP II, as it is called, was followed by the release of Appendices F-M on April 29. The purpose of this note is to point out to Ortech clients some significant differences between RFP I and RFP II.

Sub-Zones

RFP II sets out a series of Restricted Sub-Zones designed to recognize the transmission limitations in various parts of the province, particularly the Bruce Peninsula. Components of the transmission system are given a Sub-Zone Limit. As proposals are evaluated, they will be ranked in price for each Sub-Zone until the Sub-Zone Limit is reached. Proposals that exceed the Sub-Zone Limit will be set aside. The proposals within the Sub-Zone Limits will then be ranked by price with other proposals not subject to the Sub-Zone Limits. Sub-Zone Limits are subject to downward adjustment to reflect RES contracts awarded in RFP I. In general, there is an advantage to connecting to a 230 kV line as these lines have higher Sub-Zone Limits. Proposals not subject to Zone Limits are those that connect to 500 kV lines running out of Bruce and Nanticoke. Certain parts of the province are subject to extra restrictions such as Lake Superior west of Wawa that is limited to 200 MWs and the area north and east of Sudbury that has a maximum of 50 MWs.

Price Ceiling

A second new concept is the "Price Ceiling" that is used to establish the maximum price that the Ministry will authorize the OPA to pay for renewable power. The Price Ceiling is determined by taking 107 per cent of the weighted average prices of the first 450 MWs of proposals. The Ministry will take up to 1,000 MWs of supply <u>provided</u> that the proposals do not exceed the Price Ceiling.

Bid Strategy

The combination of the Sub-Zone Limits and the Price Ceiling will complicate a proponent's bid strategy. A proponent must not only know where competitors are connecting within a zone but also estimate the potential bid prices within the zone and throughout the province. To the extent that a successful proponent in RFP I, has built into its pricing for RFP I part of the infrastructure costs to be used in RFP II, that previously successful proponent will have an advantage in RFP II even though the maximum proposal limit for RFP II is 200 MWs less, in the case of an expansion of a project, the amount that was awarded under RFP I.

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Renewables RFP II

For developers of wind facilities there are two implications from these changes. Because wind farms are concentrated in specific areas of the province with better wind regimes, the Sub-Zone Limits may have a significant effect. Secondly, even with the enhanced WPPI promised in the last federal budget whose fate is uncertain, wind remains a higher cost source of electricity. Given that projects below 20 MW will be the subject of a separate RFP so that the first 450 MWs is likely to include several wind projects, the combination of Sub-Zone Limits and the Price Ceiling may pose difficulties for some projects.

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