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## **ORTECH Power Points™**

### **Q&A – Renewable RFP II**

**by Uwe Roeper**

This morning, the Ministry of Energy held a technical debriefing in Toronto on the recently released Draft Request for Proposals (RFP II) for up to 1,000 MW of renewable energy supply. After presentations by Ministry staff, its counsel and by the Independent Electricity System Operator (IESO), numerous questions were raised and addressed, mostly related to differences to the 300 MW RFP I of last year. Some of the key issues that emerged included:

- 1) **Joint and Several Liability for the Proponent Core Team:** This year, Proponent Core Team members are required to sign a declaration (see RFP II, Appendix M) which exposes them to joint and several liability for the representations made in the proposal(s) submitted.
- 2) **Competition from OPG:** Ontario Power Generation is not excluded from bidding in RFP II; however, it was noted that the Minister of Energy took the position recently in public that OPG's mandate is to focus on water and nuclear. The representative of the Ministry said he was not aware of OPG competing in RFP II with a water project. (Author's note: Other restrictions in the RFP would require that such a project would have to be over 20 MW but not dispatchable, which most large water projects are. These restrictions would limit the number of suitable water projects that OPG might have, but it does beg clarification.)
- 3) **Change of Control:** The draft of the new RES II Contract is more flexible on change of control and assignment. It allows change of control after the later of commissioning or December 31, 2008. (Author's note: This should reduce construction financing costs by decreasing the time period that high risk/high return construction financing is tied up before being replaced with lower cost long term financing. The financial community had asked for this change last year.)
- 4) **Financial Commitments:** The explanation of the financial commitments that are required has been substantially expanded in RFP II. As in RFP I, substantial equity and debt backing is required to make a bid. (Author's note: The definition of the words "agreement in principle" is still in the document and is still ambiguous. Some bids were disqualified during RFP I for interpreting the meaning of the financing language differently than the selection committee desired; hence, the sensitivity to any ambiguity in this part of the RFP II document is likely to remain high.)
- 5) **New 90% Complete Clause:** The RES II Contract does not pay the contract price for the power until 90% of the capacity is available. This implies that power produced during the construction period could be sold into the spot market. (Author's note: the condition will make

it somewhat less attractive to use flow-through financing which involves constructing test turbines several months before the rest of the wind turbines are infilled.)

- 6) Price ceiling of 107%. Proposals that are priced more than 7% higher than the weighted average price of the cheapest 450 MW offered, will not be selected. The intent of this clause is to allow rejection of high priced bids, even if the 1000 MW goal has not been reached. The clause is intended to increase price competition. (Author's note: Consider the following statistical example: If the range of prices bid is from \$74/MW to \$86/MW on the first 450 MW, and if the bid prices therein are normally distributed, no more bids will be accepted beyond 450 MW.)
- 7) Environmental Attributes: The seller retains the rights to some of the environmental attributes (eg. WPPI and NOx/SOx credits).
- 8) Early completion incentive: Projects completed early (before December 31, 2007) will enjoy a longer contract period (i.e. 21 years instead of 20 years).
- 9) Sub-Zone Appendix L: Note 3 in the appendix indicated that proponents should subtract the projects under the 300 MW RFP I from the connection limits. It was clarified that the capacity allocated for the RFP I projects has been subtracted, and the connection limits shown are available for RFP II proponents. Related to this, it was noted that a draft document is posted on the IESO website that suggests changes to the IESO connection queue, but that these changes are still being debated. (Author's note: The underlying issue is whether proponent "A" will retain its queue position if is not successful in this bid round, but proponent "B" with a later queue position wins and connects, thus taking up the available capacity at the connection point.)

The Ministry encouraged interested parties to monitor the postings on the website ([www.ontarioelectricityrfp.ca](http://www.ontarioelectricityrfp.ca)) over the coming weeks.

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