

December 18, 2013

To: Power Advisory LLC Clients and Contacts

From: Jason Chee-Aloy and Travis Lusney, Power Advisory LLC

RE: Summary and Commentary on the Development of the Large Renewable Procurement by the Ontario Power Authority

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On December 17, 2013, the Ontario Power Authority (OPA) hosted a webinar to discuss the development of the Large Renewable Procurement (LRP) and next steps. This note provides Power Advisory LLC's (Power Advisory's) high-level summary of the LRP webinar and commentary on key elements of the LRP as discussed by the OPA.

### **Large Renewable Procurement Recommendations**

The OPA provided background on the progress of the LRP development to date. In part based on stakeholder engagement activities several weeks ago, the OPA published and submitted an interim report to the Minister of Energy on August 30, 2013 including 18 interim recommendations that are listed below.

- Continue and expand municipal, First Nation and Métis and stakeholder engagement activities
- Long-Term Energy Plan (LTEP) should advise on quantity and timing of new resources to be procured
- Generation procurement should follow provincial and/or regional electricity system needs
- Conduct multiple successive rounds of procurement (i.e., whether by technology, size, or area of need)
- Procurement need, goals and expectations need to be clearly set out and understood by all parties
- Municipal electricity generation preferences should be considered
- Conduct local outreach prior to procurement commencement
- Continue procuring through the Request for Proposal (RFP) model
- Project bid price should remain a key RFP evaluation factor
- Proponent experience and financial capability should be considered
- Continue to encourage community, Aboriginal, municipal and public sector entity participation through procurement incentive mechanisms
- Site due diligence evidence should be required
- Interconnection information and cost estimates to be provided earlier in the process
- Provide greater municipal control over land use and siting
- Require community engagement sessions and council deputations during the RFP phase

- Minimum community acceptance criteria should be considered
- Further clarity on Ontario Power Generation (OPG) participation is needed
- Conduct further research on technology bundling

The OPA also outlined the activities that have occurred in the fall of 2013 that addressed or provided clarity for some of the above interim recommendations. Also, the OPA briefly mentioned the Minister of Energy adopted Independent Electricity System Operator (IESO)/OPA recommendations regarding regional energy planning and siting of large energy infrastructure projects which will impact the LRP design and development by way of project requirements and non-price criteria for evaluation of submissions within the Request for Qualification (RFQ) and RFP.

***Power Advisory Commentary: The 18 interim recommendations regarding the LRP and the recommendations on regional energy planning and siting of large energy infrastructure projects are all broad in nature. Therefore, many more details still need to be consulted on with stakeholders and worked through towards their integration into the RFQ and RFP. Therefore, participation in future OPA LRP consultations should be a high priority in order to help inform the scope of the forthcoming draft RFQ and then the draft RFP later this year.***

### Large Renewable Procurement Targets and Connection Availability Areas

The updated LTEP was released on December 2, 2013 providing policy direction regarding targets for LRP procurements in 2014 and 2015. The LTEP extended the existing in-service target for 10,700 MW of non-hydroelectric renewables (i.e., wind, solar, bioenergy) to 2021. The hydroelectric generation target was increased to 9,300 MW from 9,000 by 2025.

***Power Advisory Commentary: For a high-level and summary of the updated LTEP by Power Advisory, please refer to our previous note that can be found on our website at: <http://www.poweradvisoryllc.com/reports/>.***

The LRP procurement targets for wind, solar, bioenergy and hydroelectric generation are listed in the table below.

LRP Technology Procurement Targets	2014	2015	2016
Wind	300 MW	300 MW	Capacity not procured and capacity not developed under existing contracts to be reallocated to 2016
Solar	140 MW	140 MW	
Bioenergy	50 MW	50 MW	
Hydroelectricity	50 MW	45 MW	

***Power Advisory Commentary: Specific targets by renewable fuel type provide needed clarity to potential LRP participants. Essentially, separate procurement processes will be developed and administered by the OPA for each renewable fuel type, whether separate RFQs/RFPs are developed and administered or a single RFQ/RFP is administered with***

*four distinct and separate streams (i.e., one for each renewable fuel type). Power Advisory is of the opinion that attrition of some Feed-in Tariff (FIT) contracted projects will occur, therefore leading to a third round of procurements in 2016. Further, if the requirements and non-price evaluation criteria are set sufficiently high within the RFQ(s)/RFP(s), the probability of procuring the number of projects to meet the applicable targets will decrease, therefore adding to the potential for 2016 procurements and also increasing the procurement targets for the 2016 procurements.*

Annual reporting through the forthcoming IESO/OPA Ontario Energy Reports and LTEP updates (i.e., every three years) may adjust the procurement targets in the future. The OPA is planning to meet the LRP targets by only utilizing existing transmission capacity (i.e., connection availability). Therefore, the OPA is not planning to procure renewable generation projects based on future upgrades or expansion of the transmission system. This represents a fundamental change to the framework developed in the initial version of the FIT program and the Economic Connection Test (ECT) (i.e., the concept of the ECT was never operationalized and has since been abandoned in subsequent versions of the FIT Program Rules).

During the webinar, the OPA released a preliminary LRP connection availability summary that identifies areas of the Province with connection availability (see graphic below).

## Preliminary LRP Connection Availability



***Power Advisory Commentary: The connection availability map is only a preliminary version and the OPA is planning to update the map in January 2014. The earlier the OPA can convey connection availability by circuits within areas the better, as it will help potential LRP participants to develop their projects in an effective manner and plan strategies accordingly (including effective engagement with communities, municipalities and Aboriginal peoples). In general, we agree with the connection availability per areas but believe explanation is needed why the Bruce and Niagara areas show no connection availability as we believe there could be available connection. It is unclear if the connection availability map released by the OPA considers current transmission projects that are already underway (e.g., West of London re-wiring, SVC installation at Milton SS, etc.) because if they do not, arguably, additional connection availability will exist in applicable areas by the time LRP awarded projects would be scheduled to reach commercial operation.***

### **Large Renewable Procurement Schedule**

The OPA plans to continue stakeholder engagement through the beginning of 2014 with regional community meetings planned for January and February. The OPA will also host additional webinars and meetings with renewable energy developers, equipment suppliers and other interested stakeholders beginning in early 2014.

***Power Advisory Commentary: It is essential for all interested stakeholders and potential LRP participants to participate in all LRP related consultations. Further, one-on-one meetings with the OPA should also be scheduled in order to provide direct input in the development of the LRP including the RFQ and RFP. All interested stakeholders and potential LRP participants should become familiar with the OPA's last renewable energy supply (RES) procurement (i.e., RES III), other OPA competitive procurements (e.g., Southwest GTA RFP, Northern York Region RFP, etc.) and competitive renewable procurements from other jurisdictions (e.g., Quebec, Nova Scotia, California, etc.), in order to formulate positions and advice to the OPA regarding design and development of the LRP including the RFQ and RFP. Power Advisory believes these other procurements help provide a basis of how a competitive procurement process can be administered, including evaluation mechanisms, but believes that applicable submission requirements and non-price evaluation criteria will necessarily be different (and more onerous) within the LRP.***

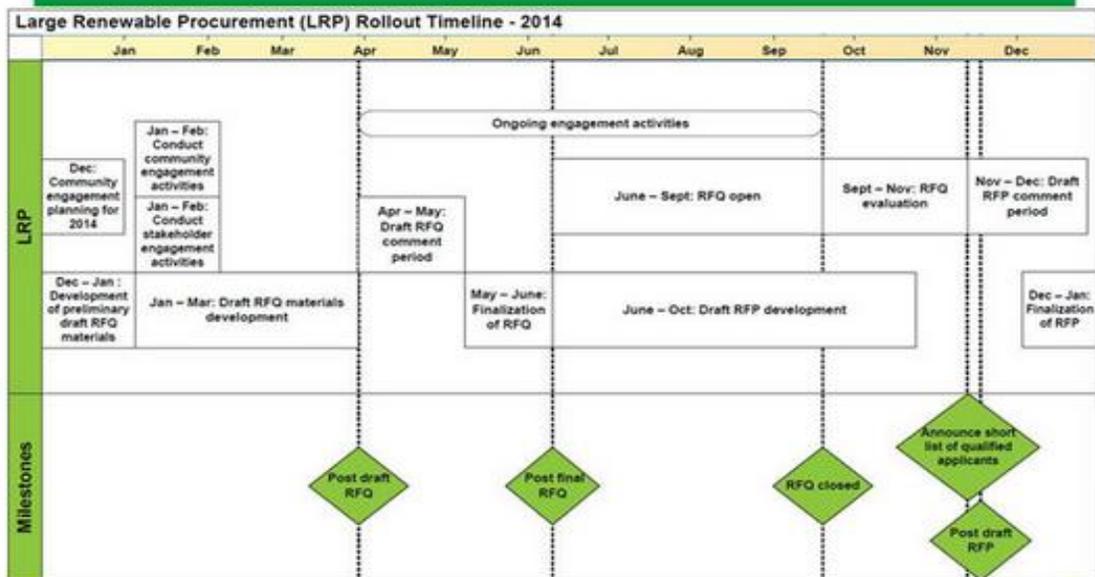
The OPA released a draft schedule for the LRP process including milestones for the RFQ and RFP. In total length of time, the preliminary draft LRP schedule is approximately 12 to 16 months from the time of launching the procurement process to contract awards. This approximate schedule is similar to previous OPA competitive procurements (e.g., RES Supply III RFP).

The OPA plans to post a draft RFQ by the end of Q1/2014. After comments have been received from stakeholders and potential LRP participants, the OPA plans to finalize the RFQ by early June 2014. The RFQ submission window will then open and is planned to be closed around September 2014. After this step, a short list of qualified submissions will be announced around November 2014.

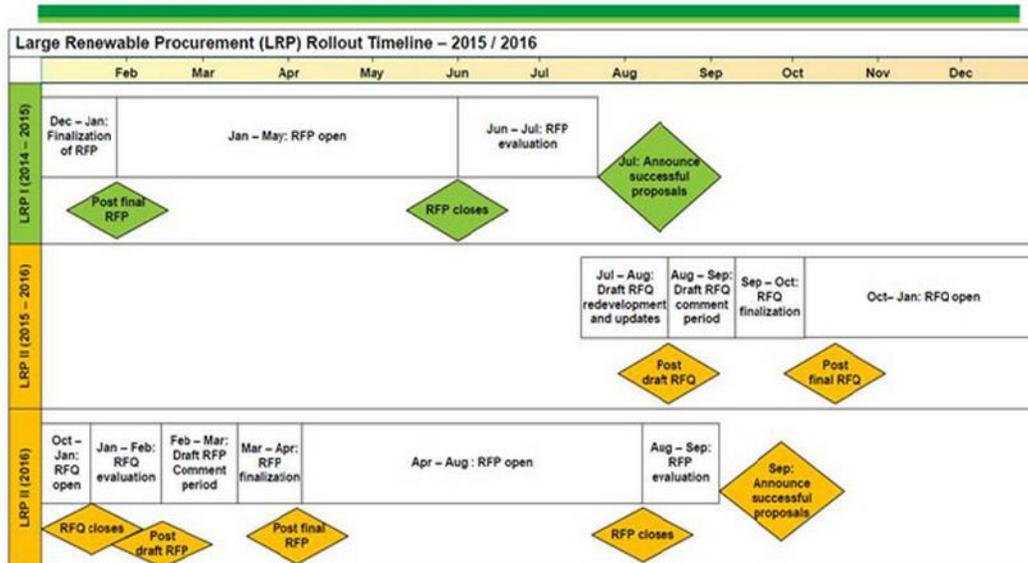
The OPA plans to post a draft RFP in late 2014 after the qualified submissions have been determined and release the final RFP around February 2015. RFP submissions are then projected to be submitted in June 2015 with contracts being awarded around late July 2015.

The timeline below conveys the draft LRP schedule for the first LRP (described above), and the graphic on the following page provides a preliminary draft schedule for the second LRP (to be launched in 2015 with contract awards in 2016).

## Preliminary LRP Timeline – 2014



## Preliminary LRP Timeline – 2015 / 2016



*Power Advisory Commentary: The schedules presented by the OPA are aggressive, especially considering the difficult siting issues that need to be addressed, including the integration of the siting related IESO/OPA recommendations within the LRP. However, if the Ministry of Energy and the OPA wish to take an aggressive and expedited approach to stakeholder consultation regarding these issues and the design and development of the LRP, including the RFQ and RFP, the preliminary draft schedule is doable. It is Power Advisory’s opinion that the schedule will be lengthened in order to best ensure the projects that are awarded contracts stand the best chance of successful development with minimal opposition. Therefore, we believe the Ministry of Energy and the OPA will want this outcome and will take appropriate care regarding how issues are addressed within stakeholder consultations in order to arrive at workable and acceptable solutions to be included within the RFQ and RFP. Further, the potential for a spring 2014 Provincial election may result in a longer LRP schedule.*

### Potential Community Engagement Criteria

The OPA concluded the webinar by identifying potential community engagement criteria and calling for stakeholder comments and suggestions.

Listed below are the OPA identified potential community engagement criteria.

- Municipal council support resolution
- Municipal equity interest

- Community equity interest (e.g., co-op)
- Acceptance/agreements from all adjacent landowners
- Agreement to comply with municipal site plan control process
- Community benefit agreement (or demonstrated offer of one to the municipality)
- Public meeting(s) conducted in municipality outlining process, proposed project and preliminary anticipated effects and mitigations
- Compliance with zoning (e.g., site is zoned to permit electricity generation)

***Power Advisory Commentary: The list provided by the OPA is broad and extensive, suggesting that the OPA is open to receiving input. It is important for potential LRP participants to provide input, as community engagement criteria will most likely be a significant requirement and evaluation criteria in the RFQ and RFP.***