

MEMORANDUM

TO: Mayor and Members of Council

FROM: Jim Baird, Commissioner of Development Services

DATE: June 24, 2008

SUBJECT: Update on OPA's Local Generation RFP (Northern York Region)

RECOMMENDATION

That the Memorandum titled "Update on OPA's Local Generation RFP (Northern York Region)", dated June 24, 2008, be received;

That Markham Council reiterates its support for the OPA's "Integrated Solution" for power supply to Northern York Region comprised of: Demand Reduction; New Transformer Station capacity; and Local Generation as adopted by Council on September 27, 2005 and further endorsed by Council on April 24, 2007 and November 27, 2007;

That the Town of Markham remains strongly opposed to a transmission contingency solution for Northern York Region and requests the OPA to continue to expedite local generation supply options to Northern York Region;

That the OPA be requested to review its draft RFP dated June 6, 2008 for 350 MW of peaking generation in Northern York Region, with a view to placing a greater emphasis on environmental, municipal consultation, and community outreach criteria in the scoring and evaluation of proposals, as outlined in the Memorandum attached;

That Council support the submission of this Memorandum and Resolution to the Ontario Power Authority, the Ontario Energy Board, the Ministry of Energy, Hydro One, PowerStream, Region of York, and the Markham – Aurora Hydro One Task Force Members;

That this Memorandum and Resolution also be forwarded to the Premier, the Minister of Energy, and Region of York based M.P.P.s;

And that Staff be authorized and directed to do all things necessary to give effect to this resolution.

CONTEXT:

The Ontario Power Authority (OPA) on June 6, 2008 released its draft Request for Proposals (RFP) for approximately 350 MW of Peaking Generation to serve Northern York Region (NYR).

The OPA first initiated a Request for Qualifications (RFQ) process in January 2008. Five (5) "Qualified Applicants" have advanced to the more detailed RFP stage. These are:

- Epcor Energy Centre (Ontario) LP
- Northland Power Inc.
- Pristine Power Inc.
- Sithe Global Canadian Power Services Ltd.
- TransCanada Energy Ltd.

At this point in the procurement process, eight (8) potential sites have been identified to date – certain proponents having more than one candidate site.

The OPA is now seeking detailed proposals from the Qualified Applicants for the supply of approximately 350 MW of new natural gas-fired peaking generation located in Northern York Region. For the purpose of this exercise the OPA defines NYR as Aurora, East Gwillimbury, King, Newmarket, and Whitchurch-Stouffville, as well as Bradford West Gwillimbury in Simcoe County.

BACKGROUND:

The Town of Markham has been involved with the issue of power supply to Northern York Region since 2004.

Markham Council and the Markham-Aurora Hydro One Task force played a key role in opposing the 2004 Hydro One Environmental Assessment proposal to expand transmission from the south to the north, through urban residential neighbourhoods. This opposition was on the basis that reasonable alternatives were not considered; process concerns were not addressed (Class versus Individual EA); public concerns were not mitigated (e.g. EMF; under-grounding); and that there are significant detrimental environmental, social and economic impacts associated with large scale transmission.

In March 2005, the Minister of Energy announced Hydro One was withdrawing its application to MOE, to facilitate a review by the newly created Ontario Power Authority of possible alternative solutions to meet the energy demands of NYR.

Markham participated on the OPA's 2005 Working Group which investigated a wide range of options to address the power supply needs of NYR.

Markham Council in September 2005 expressed support for the OPA's "integrated solution" comprised of:

1. Demand Reduction
2. New Transformer Station Capacity
3. Local Generation.

The OPA was commended for undertaking a fair, open and participatory process in 2005.

Since 2005, the OPA has been moving forward in implementing the short term (2006 – 2008) recommendations of the integrated solution including:

- aggressive conservation and demand management in partnership with industry, local power distribution companies, municipalities, and consumers
- upgrades to the Armitage Transformer Station in Newmarket
- new transformer station (under construction) at Holland Junction in King.

The OPA's longer term (2008 – 2015) recommendations are in process, through the current RFQ/RFP for a local generation plant in Northern York Region. Local generation (via a 350 MW simple cycle peaking plant) has been identified by the OPA as the technically preferred solution to meet the need for supply diversity and reliability in NYR.

COMMENT:

Markham Council officially supported the OPA's integrated solution by resolution dated September 27, 2005. Markham Council reiterated its support for the OPA's integrated solution by resolutions passed on April 24, 2007 and November 27, 2007.

It is recommended that Markham Council continue to strongly support the OPA's integrated solution. The OPA's selection criteria and municipal review and environmental assessment processes are intended to address proper siting and mitigation of local generation in Northern York Region.

It is also recommended that Markham Council continue to oppose a transmission solution on the basis that:

- The OPA's integrated solution (comprised of demand reduction, new transformer station capacity and local generation) is the preferred solution and is advancing through the proper implementation processes
- Transmission is not the preferred technical solution
- The OPA's 2005 recommendations identified the "transmission contingency" only as a last resort
- There is extensive public opposition to large scale transmission, as demonstrated at the time of the 2004 Hydro One EA
- There are significant detrimental social, economic and environmental impacts associated with transmission.

With respect to implementing local generation in NYR, the Draft RFP dated June 6, 2008 has been released on the OPA web site for public review and comment. It is our understanding that the RFP document will be finalized and released by July 2008, and RFP submissions by Qualified Applicants will be due in October, with the preferred supplier intended to be selected by the end of 2008.

The draft RFP document outlines a four stage Evaluation process as follows:

- Stage 1 – Proposal Completeness Requirements (pass or fail)
- Stage 2 – Mandatory Requirements (pass or fail)
- Stage 3 – Rated Criteria (scoring up to a maximum 100 points)
- Stage 4 – Economic Bid Evaluation and Selection (cost/value rating)

Of greatest interest to municipalities will be “Stage 3 – Rated Criteria”, summarized on the chart below:

Overview of Rated Criteria	Maximum Point Scores
Electrical Connection Point	20
Environmental Assessment	18
Municipal and Regional Approvals	18
Community Outreach	17
EPC Arrangements	8
Equipment Availability	5
Fuel Supply	5
Water Use	4
Water Supply	3
Proposed Milestone Date for Commercial Operation	2
TOTAL MAXIMUM POINT SCORE	100
Minimum Required Total Point Score	40

See Appendix ‘A’ for a full extract from the OPA’s RFP Document Section 3.3. – Stage 3 – Rated Criteria.

It is positive that, in addition to technical engineering criteria, the OPA’s rated criteria include:

- Environmental Assessment
- Municipal and Regional Approvals
- Community Outreach.

These criteria are intended to ensure that proponents have regard for and address the environmental and land use implications of their proposals, and consult with municipalities and the community. The OPA scoring and selection process will evaluate proposals based, in part, on the above criteria to ensure that the winning bid demonstrates a suitable location and proper measures to mitigate impacts and address any concerns.

However, it is recommended that the OPA be requested to revise the scoring and screening approach in Stage 3 of the draft RFP to address the following concerns:

- whereas the environmental, municipal and community criteria noted above are currently shown to have a cumulative maximum score of 53 out of a possible 100 points, we would recommend a higher score allocation for these 3 criteria of no less than 60 points.
- the Electrical Connection Point criterion should award points for under-grounding of transmission connection(s) to the grid
- the minimum required total point score to advance to Stage 4 – Evaluation and Selection Process, should be much higher than 40 points out of 100; in order to place a higher emphasis on environmental criteria and mitigation of community impacts, we would recommend a minimum of 60 points to “pass” and advance to Stage 4.

Stage 4 of the OPA’s selection process is the final evaluation and selection stage for all proposals that have achieved the minimum required total point score in Stage 3. This final stage is primarily based on cost and the economic competitiveness of each proposal. However the OPA, to its credit, does not rely solely on minimum cost in determining final selection in Stage 4. Rather, there is an adjustment (Step 4 – Calculation of the Adjusted Evaluated Cost) to take account of the relative scores of the proposals on Stage 3 criteria (including environmental, municipal and community criteria). In essence Step 3 of Stage 4 provides that each proposal shall have its evaluated cost “discounted by a factor that is directly proportional to its Total Point Score received in Stage 3, in order to determine the Proposal’s Adjusted Evaluated Cost”.

Appendix B provides an extract from the OPA’s draft RFP outlining Stage 4, Step 3 Calculation of Adjusted Evaluated Cost, including the discount factor calculation.

While we support this approach of applying Stage 3 environmental criteria in the final selection process at Stage 4, we would request the following modification:

- that the Step 3 calculation of the adjusted evaluated cost place a higher emphasis on Stage 3 criteria, and specifically that the “discount factor” be modified from a maximum 20 % discount to a revised maximum 30 % discount, in order to acknowledge and benefit those proponents scoring the highest in Stage 3 on environmental, municipal and community outreach criteria.

For example, if a proposal received 100 out of 100 points in Stage 3, then the discount factor for the proposal would be revised from 0.200 to 0.300, meaning that the adjusted

evaluated cost would be reduced by 30 % below actual evaluated cost in determining the relative cost efficiency of the proposals.

The above comments and recommendations should be submitted to the OPA and other stakeholders as the Town of Markham's comments on the draft RFP document.

Attachments:

Appendix 'A' – Stage 3 – Rated Criteria

Appendix 'B' – Stage 4, Step 3 – Calculation of the Adjusted Evaluated Cost

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