

Alberta Releases Details of First Renewable Electricity Program Competition

Energy Bulletin

The Government of Alberta (“Alberta”) recently released details of the Renewable Electricity Program (“REP”), its much-anticipated plan to accelerate the development of renewable power generation through a competitive bid process.

On November 3, 2016, Environment Minister Shannon Phillips and Mike Law, Vice President of Renewables Development and Sustainability with the Alberta Electric System Operator (“AESO”), introduced the REP at the Canadian Wind Energy Association annual conference. Minister Phillips stated that the REP will generate \$10.5 billion in new investment in the Province by 2030, and up to 7,200 new jobs. Mr. Law provided an outline of the REP and the first procurement process to be administered by the AESO. Further details were made available on the AESO website on November 10, 2016.

The REP is a major component of Alberta’s Climate Leadership Plan (the Plan), announced in 2015. [Read our earlier bulletin on the Plan here.](#)

As part of the Plan, Alberta committed to phasing out coal-generated electricity and developing more renewable energy. Alberta instructed the AESO to develop and implement a program to introduce new renewable energy sources to the grid, while still maintaining a competitive energy market in Alberta. The result is the REP.

Competitive Process

The REP is designed to encourage the development of 5,000 MW of new renewable electricity generation capacity connected to the Alberta grid by 2030. This will be done through a series of auctions administered by the AESO. The first competition is expected to be open in early 2017, with awards at the end of 2017 for up to 400 MW in new or expanded renewable generation.

Each competition may include up to 3 stages, all overseen by an objective third-party observer:

1. **Requests for Expressions of Interest (“REOI”)**: A 4-6 week process intended to gauge the level of interest and allow the AESO to seek feedback from industry, with no obligation on interested parties to continue to the next stage.
2. **Request for Qualification (“RFQ”)**: A 4-6 month process during which eligibility requirements are released, bidders submit their qualifications in three categories

(project eligibility, financial strength and capability, and technical capability), and a non-refundable “pay to play” fee is submitted.

3. **Request for Proposals (“RFP”)**: A 2-3 month process when qualified bidders provide security for their bids and submit final, binding offers. Successful bidders are selected at the end of this stage.

In order to participate in the first competition, a project must be situated in Alberta, be either new or an expansion (existing projects are ineligible), have a capacity of at least 5 MW, connect to existing transmission or distribution infrastructure, and be operational by the end of 2019. Provided that these criteria are satisfied, the first competition will be “fuel neutral”, in the sense that Alberta has not identified a preference for a particular quantity of wind, solar, or other renewable fuel source for the 400 MW of generation that will be procured.

Payment Mechanism

In developing the REP, Alberta considered three possible payment mechanisms:

1. A “Fixed Renewable Energy Credit”, where winning bidders are paid an amount per MWh as bid for renewal attributes produced;
2. An “Indexed Renewable Energy Credit”, where winning bidders are paid an amount per MWh, calculated as the difference between the market price and the bid price for renewal attributes produced; and
3. A “Capacity Payment”, where winning bidders are paid an amount per MWh for capacity built, and not for production of energy.

The first competition will proceed on the basis of the “Indexed Renewable Energy Credit”. The winning bidder will be paid “top up” payments, which will be outlined in the Renewable Energy Support Agreement (“RESA”) entered into between the AESO and the bidder for a term of 20 years. The RESA will be a contract for differences and the amount of the RESA payments will be calculated based on the difference between the market price and the bid price. If the market price exceeds the bid price, the bidder will pay the excess amount to Alberta. In other words, between receiving the pool power price and any RESA “top up” payments, the bidder will effectively receive a fixed price for its generation for 20 years.

This payment system is intended to compensate generators for low Alberta power market prices when compared with the cost of renewables, while still minimizing program costs to Albertans.

RESA Key Provisions and Request for Feedback

On November 10, 2016, [the AESO posted key provisions of the RESA on its website \(PDF\)](#). These provisions include:

- **Term**: The term of the RESA will be comprised of (1) a development and construction period, starting on execution of the RESA and ending with commercial operation of the facility, and (2) a support period, starting with commercial operation and ending 20 years after the earlier of commercial operation, or the target date for commercial operation. The support period is when support payments will be made to the generator;
- **Renewable attributes**: In exchange for support payments, the title to all renewable attributes will be transferred to the AESO;
- **Connections**: The generator will be responsible for the cost of all facility connections that are required to deliver electricity to the connection point;

- **Settlement:** For each hour, the support payment will be equal to the metered electricity generated by the facility, multiplied by the difference between the strike price, and the greater of the pool price and zero. If the difference calculated is positive, the AESO will pay the amount to the generator. If the difference calculated is negative (meaning that the pool price exceeds the strike price), the generator will pay the absolute value of that amount to the AESO;
- **Indexation and payment adjustments:** 20% of the strike price (the percentage allocated to operation and maintenance costs) will be adjusted by any change in the Consumer Price Index;
- **Indemnification:** The generator will be required to indemnify the AESO and Alberta for any breaches of their covenants, or events at the facility; and
- **Termination:** The RESA may be terminated by the AESO or the generator in the event of the other party's default. The RESA may also be terminated at the AESO's convenience with up to 30 days' notice (prior to commercial operation of the facility), by paying pre-construction development costs (prior to the beginning of construction), or by paying a termination payment (after construction has started).

The AESO is seeking feedback from interested parties on the RESA provisions. [A template feedback form is provided on the AESO's website.](#) Note that the AESO intends to post the feedback received on its website, without disclosing the identity of the author. All feedback must be submitted to the AESO by email no later than 5 p.m. MST on December 9, 2016.