

Backgrounder



For Immediate Release
June 16, 2008

Nuclear Procurement Project Phase 2

Energy Plan

In June 2006, the Ontario government presented a balanced, clean, reliable and affordable 20-year energy plan. The government's plan will double conservation and renewables, eliminate coal-fired generation by the end of 2014, maintain nuclear energy capacity for baseload operation at approximately 14,000 megawatts and add additional gas-fired generation for use in peak periods.

The government's energy plan calls for refurbishment and new build of nuclear facilities to maintain existing nuclear generation capacity at approximately 14,000 megawatts.

Phase 2 of the Request for Proposals (RFP) Process

Phase 2 of the RFP will focus the competition on the cost of power, on-time delivery and investment in Ontario. The competitive process will help to ensure the greatest amount of cost certainty, lowest possible price and a fair approach to risk sharing.

Evaluating the Respondents

To achieve the best possible deal for Ontarians, respondents to the Nuclear Procurement Project Request for Proposals (RFP) will be evaluated in three key areas:

- Lifetime cost of power
- Ability to meet Ontario's timetable to bring new electricity supply on line beginning July 1, 2018
- Level of investment in Ontario

The lifetime cost of power and ability to meet Ontario's schedule will be measured and converted into the Levelized Unit Electricity Cost (LUEC).

The Levelized Unit Electricity Cost is an industry-standard measurement tool that represents the average electricity price required to fund the construction, operation, fueling, and decommissioning of any type of energy power plant. It assumes a fixed rate of return and is typically expressed in present day dollars per megawatt-hour.

The LUEC will represent 80 per cent of the evaluation weighting in Respondent submissions. Level of Investment in Ontario will be measured on the basis of Gross Domestic Product (GDP) impact and will represent 20 per cent of the evaluation weighting.

The evaluation criteria is weighed on an 80/20 basis because the economic benefit of cost of power and ability to deliver on time is more than four times greater than the economic benefit gained through the level of investment in Ontario through local spending.

Although investment in Ontario will represent 20 per cent of the score it is important to note that there will be a significant amount of spending in Ontario. In fact any vendor would most likely allocate more than 50% of total project costs in Ontario for labour, construction materials and manufactured equipment.

Lifetime Cost of Power

Respondents will be evaluated on their ability to demonstrate the lowest combination of capital and operating costs. Respondents will provide specific information on:

- Capital costs
- Operating costs including maintenance, refurbishment, and sustaining investment costs
- Fuel requirements
- Decommissioning costs
- Output and expected service life

Pricing

As part of each Respondent's submission on lifetime cost of power they will also provide a pricing submission. Respondents will be evaluated on their overall financial submissions, including the level of cost certainty they can provide.

During Phase 2 of the RFP process commercially confidential discussions will take place with all Respondents to seek further input on the pricing methodologies and the commercially balanced way to deal with such issues as uncertainty around the licensing process, wages, fluctuation in commodity prices, inflation, construction quantities, and similar commercial uncertainties.

Ability to meet Ontario's schedule

Respondents will be evaluated on their ability to demonstrate a schedule that meets the target in-service date for the first unit of July 1, 2018. They will also be evaluated on the potential for schedule delays by measuring the following:

- Licensing management and identification of possible licensing delays
- Ability to demonstrate that the design will be ready for start of construction
- Management of the supply chain through identification of potential supply chain bottlenecks and mitigation strategies
- Demonstration of project management capabilities

These will be individually measured and then converted into an expected schedule delay which will be converted into a replacement cost of power estimate.

Level of Investment in Ontario

Each respondent will be evaluated on the GDP impact from the construction program, the long term GDP impact from future global construction, and any additional economic offsets they may wish to propose. To assess level of investment in Ontario, respondents will provide the following information:

- Detail on how the Project spend will flow to Ontario suppliers and sub-contractors
- A description of any additional ways that the respondent will add value to the Ontario economy beyond the scope of the Project (e.g., establishment or expansion of fuel fabrication plant, research plant) including timeline of capital spend and domestic capital and operating spends.

Scoring Respondent Submissions

The total score for a Respondent submission will be out of a maximum of 100 points, and is the sum of the LUEC score out of 80 and the GDP impact score out of 20.

A full score of 80 points will be assigned to the lowest calculated LUEC among the Respondents' submissions. Respondents with higher calculated LUEC's will receive proportionately fewer points than the full score. For example: a Respondent with a 10 per cent higher LUEC would receive 10 percent, or 8 points, less than the full score of 80.

A full score of 20 points will be assigned to the Respondent with the highest GDP impact among the Respondents' submissions. Respondent submissions with lower GDP impact proposals will receive proportionately fewer points. For example: A Respondent with a 40 per cent lower GDP impact than the best submission would receive 12 points or 60 per cent of the full score of 20.

Timelines

Phase 1

- On March 7, 2008, the Ontario Government announced a two-phase competitive procurement process to choose a preferred nuclear reactor vendor
- In April 2008, a series of Commercially Confidential Meetings were held with potential vendors
- On May 9, 2008, Infrastructure Ontario announced that three vendors had submitted Phase 1 Proposal Submissions as required by the RFP
- On June 5, 2008, Infrastructure Ontario announced that all three vendors that had submitted Phase 1 Proposal Submissions received 'satisfactory' ratings and would be invited to proceed to Phase 2 of the RFP

Phase 2

- On June 16, 2008, Infrastructure Ontario released Phase 2 of the Nuclear Procurement Project RFP
- From July to October 2008, a series of bilateral confidential meetings will take place on aspects of design readiness and commercial aspects of the project
- October 2008, deadline for submission of Phase 2 Proposal Submission
- End of November, 2008, selection of Negotiations Respondent(s)/Preferred Vendor
- End of December, 2008, Project Agreement signed

Governance Structure

Commercial team: The competitive procurement process is being led by a commercial team that is directed by Infrastructure Ontario and includes: Ontario Power Generation, Bruce Power, the Ministry of Energy and the Ministry of Finance. The team includes legal, technical, commercial contracting, financial risk transfer, nuclear industry and procurement experts.

Steering committee: Commercial team recommendations are reviewed by a steering committee consisting of senior deputy ministers and the CEOs of Ontario Power Generation, Bruce Power and Infrastructure Ontario. The steering committee recommends major commercial decisions to the decision review board.

Decision review board: Scott Hand and Tim O'Neill were appointed in March to review the findings of the commercial team and to ensure the competitive procurement process is carried out in a fair and rigorous manner and in the best interests of Ontarians. The decision review board provides its recommendations to Cabinet.

Fairness Monitor: A fairness monitor continues to ensure all respondents are treated fairly throughout the RFP process.

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