

Non-Competitive Contract Amendment to Demand Response Agreement with Rodan Energy Solutions Inc.

Date: October 8, 2021

To: Infrastructure and Environment Committee

From: General Manager, Toronto Water and the Chief Procurement Officer,
Purchasing and Materials Management

Wards: All

SUMMARY

The City participates in the Province's Demand Response program (the "DR Program"), administered by the Independent Electricity Systems Operator (IESO), which pays electricity end-user participants to reduce consumption or generate their own electricity during periods of peak demand. Participation in the DR Program provides the following benefits to the City: a continued revenue stream, optimization of City assets, and improved energy security and resilience. Currently, Rodan Energy Solutions Inc. ("Rodan") is the Demand Response aggregator who facilitates the City's participation in DR Program and, among other things, coordinates the City's Demand Response resources with the supply portfolio of the IESO, pursuant to an agreement with the City, which will expire on April 30, 2022. Pursuant to this agreement, the City receives from Rodan 94% of all applicable IESO incentive payments paid by the IESO in exchange for the City's participation in the DR Program. Rodan retains the remaining 6% in payment for the services it provides to the City.

Since 2013, the City has realized more than \$2 million in revenue based on Toronto Water's participation on behalf of the City in the DR Program. From about early in 2020, Toronto Water has been the only City participant in the DR Program, generating approximately \$200,000 of revenue (net of all taxes and charges) annually by reducing contracted DR load at Toronto Water facilities. An opportunity has now arisen that would enable Toronto Water to ensure that the City receives an even higher share of IESO payments and continued, uninterrupted Demand Response revenues over the next five years while supporting the City's commitment to increasing energy efficiency. Rodan is prepared to increase the City's share of the IESO payments it receives, based on Toronto Water's continued participation in the DR Program alone, from 94% to 96% for a five year period commencing on May 1, 2022 and ending April 30, 2027 on the condition that, with some minor exception, the terms and conditions of the current agreement otherwise remain the same. For the reasons set out in this report, staff are seeking the necessary authorization from City Council to amend the City's agreement

with Rodan in order to secure for the City the increased IESO payment amount and the corresponding revenue generation through to 2027 which is estimated to be \$1.16 million.

RECOMMENDATIONS

The General Manager, Toronto Water, and the Chief Procurement Officer, Purchasing and Materials Management, recommend that:

1. City Council authorize the General Manager, Toronto Water, to negotiate, enter into and execute a non-competitive agreement to amend and restate the Demand Response Agreement dated November 2, 2018, as subsequently amended and assigned, between the City of Toronto ("City") and Rodan Energy Solutions Inc. ("Rodan"), for electricity demand response aggregation services ("Agreement"), extending the term of the Agreement for a period of 5 years commencing on May 1, 2022 and ending on April 30, 2027, on the condition that Rodan agree to pay to the City 96% of all IESO payments, and on such other terms and conditions as may be satisfactory to the General Manager, Toronto Water, and in a form satisfactory to the City Solicitor.
2. City Council authorize the General Manager, Toronto Water, to negotiate, enter into and execute any other related agreement(s), and/or any amendments of same, including any forms or such other documents as may be necessary to give effect to Recommendation 1 above on terms and conditions satisfactory to the General Manager, Toronto Water, and in a form satisfactory to the City Solicitor.

FINANCIAL IMPACT

Toronto Water participates on behalf of the City in the DR Program and generates approximately \$200,000 (net of all taxes and charges) annually in IESO revenues in exchange for its energy saving efforts. Revenues from the participation in the DR Program are part of Toronto Water's annual operating budgets. To date, this participation has generated over \$2.0 million revenue for Toronto Water. With the extended 5 year contract from Rodan, the estimated total DR revenue for Toronto Water from 2022 to 2027 will be approximately \$1.16 Million.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting on March 31 and April 1, 2016, City Council adopted, on consent, Item PE10.2, "Electricity Demand Response for City Facilities" thereby authorizing, among other things, the Director, Energy and Environment Division ("EED"), in conjunction with the then Director, Purchasing and Materials Management (PMMD), to procure DR

aggregator services through a competitive process for the period 2015-2025. The Council Decision can be found here:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.PE10.2>

COMMENTS

City's Demand Response Agreement

In 2018, NRG Curtailment Solutions Canada, Inc. ("NRG") was the successful proponent retained by the City through a Request for Proposal process to provide Demand Response aggregation services to the City and, specifically, to facilitate the City's participation in the DR Program. Accordingly, the City and NRG entered into an agreement for these services dated November 2, 2018 for a term commencing on November 2, 2018 and ending on April 30, 2021 ("Demand Response Agreement"). Subsequently, the term of the Demand Response Agreement was amended to end April 30, 2022, and the Demand Response Agreement was later assigned to Rodan effective May 1, 2021. Currently, the Demand Response Agreement will expire on April 30, 2022.

While EED was involved in the early contract management of the Demand Response Agreement, in about September 2019, it notified Toronto Water and other Divisions that it would be reducing its DR Program support thereby initiating a transition process between EED and these Divisions for the City's management of the Demand Response Agreement. As of about March 2020, Toronto Water was the lone City participant in the DR program. Consequently, primary contract management of the Demand Response Agreement was undertaken by Toronto Water which included Toronto Water managing and responding to all contract related inquiries, and handling all dealings with the aggregator directly. Currently, under the Demand Response Agreement, Toronto Water's share of IESO payments is 94%.

Toronto Water's Participation in the DR Program

Toronto Water manages the largest water and wastewater system in Canada, and represents approximately 50% of the total electricity and over 25% of the total natural gas consumption from City of Toronto Divisions. As the City's largest energy user, Toronto Water has actively sought to implement capital projects and operational changes to improve energy efficiency while still meeting its primary mandate to provide quality water, wastewater and storm water services. As such, Toronto Water has been participating on behalf of the City in the DR Program since 2013. Toronto Water is currently providing 6.5 MW of DR load from 15 Toronto Water locations. As more generators are being commissioned within the next ten years, additional DR loads can be added to increase DR revenue.

In 2016, a comprehensive Energy Optimization Plan was developed by Toronto Water, which set the framework to meet the mission of optimizing energy utilization by leveraging technologies, processes and procedures in an environmentally sustainable, operationally reliable and fiscally responsible manner. One key focus of this plan is

revenue generation. Over the past decade, Toronto Water has acquired more generator assets and is leveraging their use to provide energy security and resilience, optimize asset usage and to generate revenue. With more generators planned to be installed over the next ten years, Toronto Water anticipates Demand Response revenue will continue to increase. To date, the DR Response program has generated over \$2.0 million revenue for Toronto Water.

Need for Non-Competitive Agreement with Rodan

The 2022 Capacity Auction, formerly known as the Demand Response Auction, will take place on December 1st, 2021 where aggregators will bid on IESO loads. According to the Capacity Auction process, in December of each year, aggregators typically need to identify loads, such as those from Toronto Water, before they participate in the auction and commit a known electrical capacity reduction. As the City's Demand Response Agreement with Rodan will expire in April, 2022, unless extended, Rodan may not be able to include Toronto Water load(s), on behalf of the City, in the 2022 Capacity Auction without a contractual commitment from the City. By adopting the recommendations set out in this report, the City will ensure Toronto Water facilities are enrolled in the 2022 Capacity Auction, scheduled to take place in December 2021 and the City's continued and uninterrupted participation in the DR Program.

It should be noted that due to other competing demands, and the impact of the disruption caused by the COVID 19 pandemic, staff have not been able to undertake and conduct a new competitive process for these services. At this juncture, conducting a competitive process and entering into a new contract would result in the City missing the opportunity to fully, if at all, participate in the 2022 Capacity Auction and may only serve to attract other aggregators who are either not large enough or as technically qualified to match the services currently being provided to the City and, also, the 96% IESO payment offer.

As noted earlier, in exchange for a further 5 year contract commitment from the City, Rodan has offered to increase the City's current 94% IESO payment under the Demand Response Agreement to 96% of the IESO payments; the estimated total five year contract value of which would be approximately \$1.16 Million.

By entering into a non-competitive contract amendment with Rodan as recommended in this report, it will enable Toronto Water, on behalf of the City, to guarantee that it receives the highest share of IESO payments offered by any aggregator to date, and ensure uninterrupted generation of revenue from, and the City's continued participation in, the DR Program over the next five years.

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SIGNATURE

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