Ontario Ethanol Growth Fund: Invitation to Proponents

Issue date: October 7, 2005

Receiving address:
Ontario Ethanol Growth Fund Secretariat
Policy and Programs Division
Ontario Ministry of Agriculture, Food and Rural Affairs
1 Stone Road West, 2nd Floor
Guelph, ON N1G 4Y2

Closing date and time:
Five complete copies of each Proposal must be received by 2:00 p.m. EDT on November 10, 2005.
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Introduction

The McGuinty government is committed to reducing greenhouse gas emissions by increasing the use of ethanol in gasoline. In November 2004, Ontario announced its commitment to a Renewable Fuels Standard, requiring an average of five per cent ethanol in all gasoline sold in Ontario by January 1, 2007.

On June 17, 2005, the Ontario Government announced the establishment of the Ontario Ethanol Growth Fund to support the production of ethanol fuel in Ontario. The development of ethanol plants in Ontario will also bring new investment, jobs and opportunities to rural communities.

The Ontario Ethanol Growth Fund (OEGF) provides:

- Capital assistance to help meet financial challenges;
- Operating grants to address changing market prices;
- Support for independent blenders of ethanol and gasoline;
- A research and development fund to pursue opportunities for research and innovation.

Capital Assistance

Capital assistance in the form of capital grants or loan guarantees will be made available for eligible new or expanding ethanol plants being built in Ontario. The purpose of this component of the program is to assist manufacturers in addressing financing challenges when building new or expanding existing ethanol plants (see the definition of financing challenges in “Terminology” on page 5). Eligible applicants may be offered a one-time capital grant or a loan guarantee, based primarily on project costs, plant capacity and their financial situation. Capital assistance will not exceed 10 cents per litre of plant capacity.

The total funding available for capital assistance (for all proponents combined) is up to $32.5 million. Capital grants and loan guarantees will be offered to project proponents following a due diligence process.

Operating Grants

Operating grants under the OEGF will provide operating assistance to eligible ethanol producers in production from 2007 until the end of 2016. The purpose of these grants is to help producers of fuel ethanol manage fluctuating market conditions.

Operating grants will be paid over a period of up to ten years based on a formula reflecting fluctuating market prices of corn, ethanol and crude oil. No operating grant will exceed $0.11 per litre of ethanol produced in a particular year, and the extent of annual operating grants will be established by the formula (see Appendix A) and subject to the conditions outlined in “Reduction of Operating Grant Payments” (see page 14).
The province will enter into agreements that provide support for a maximum of 750 million litres per year of production capacity. Operating grants will be offered to project proponents based on a thorough evaluation of their proposals.

**Support for Independent Blenders**

More information will be available on the OEGF web site as soon as it becomes available (See [www.OMAFRA.gov.on.ca/english/policy/oegf/index.html](http://www.OMAFRA.gov.on.ca/english/policy/oegf/index.html)).

**Research and Development Fund**

More information will be available on the OEGF web site as soon as it becomes available (See [www.OMAFRA.gov.on.ca/english/policy/oegf/index.html](http://www.OMAFRA.gov.on.ca/english/policy/oegf/index.html)).

**Summary of the Invitation to Proponents**

The Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) invites proponents to submit proposals to the Ontario Ethanol Growth Fund for capital and operating assistance for their fuel ethanol production facilities in Ontario in accordance with the terms and conditions outlined in this Invitation to Proponents (ITP). Capital contributions will go toward the financing of new or expanding fuel ethanol plants, while operating assistance will be considered for new, expanding or existing fuel ethanol production facilities.

**Terminology**

The following terms will apply to this Invitation to Proponents. The submission of a proposal in response to this ITP indicates acceptance of the following terminology:

“**Approved Eligible Volume**” refers to the amount of fuel ethanol produced by the ethanol production facility (in litres) that will be used to calculate Payment under an OEGF Agreement. This amount may not be equivalent to the Project’s Proposed Nameplate Capacity.

“**Capital Grant Agreement**” means the legal agreement that contains the terms and conditions under which a capital grant is offered.

“**Conditional Financing Agreement**” means

a) a term sheet for debt or equity financing, or combination thereof, for the Project, signed by a duly authorized officer of the Financier and accepted and agreed to by the Proponent, or

b) a statement of conditional internal financing for the Project, signed by duly authorized officers of the Proponent, in form and substance acceptable to the Government of Ontario. For greater clarity, a letter of intent does not constitute a Conditional Financing Agreement.

“**Co-products**” means all products produced at the ethanol production facility other than ethanol, such as dried distillers grain and carbon dioxide, if applicable.
“Eligible Proposal” means a proposal that meets eligibility requirements as described in this ITP.

“Feedstock” means the substance that the Project will initially use as the primary input for the production of the fuel ethanol.

“Financier” means an entity that has entered into a Conditional Financing Agreement for the Project or that is providing funds for the Project. This includes the Proponent itself, if applicable.

“Financing Challenges” refers to various circumstances. In the case of a cooperative, it may be the inability to attract enough small investors to build the required equity base. With corporate investors, it may be the inability of an investor to attract other partners. In the case of loan financing, it is the refusal of lenders to provide financing at the debt/equity ratios proposed by the investor. Even where the debt/equity ratio is acceptable, the financier may require the added security of loan guarantees.

“Free Cash Flow to Project” means earnings before interest, taxes and depreciation/amortization, PLUS any new debt issued, LESS corporate taxes, LESS new capital expenditures, LESS change in non-cash working capital, LESS repayment of government grants.

“Fuel Ethanol” means denatured ethyl alcohol produced from biomass or other renewable feedstock for use as a fuel for vehicles in a blend with gasoline. It does not include ethanol produced from petroleum, natural gas or coal and it does not include ethanol for any other use.

“Internal Rate of Return on Free Cash Flow to Project (IRR)” is a discount rate that is used as the measure of ethanol plant profitability. It equates the present value of project investment (LESS grant contributions) with the present value of free cash flow to the ethanol project. The IRR is a cumulative figure calculated from the project start-up date.

“ITP” means this Invitation to Proponents.

“Loan Guarantee Agreement” means the legal agreement that contains the terms and conditions under which a loan guarantee is offered.

“Operating Grant Agreement” means the legal agreement that contains the terms and conditions under which an operating grant is offered.

“Project” means a project in Ontario that involves the construction of a new ethanol production facility, or the retrofitting of an existing plant not originally intended for ethanol production, or the expansion of an existing fuel ethanol production facility by the proponent.

“Project Completion Date” means the first day of the month following the month when the Project begins producing fuel ethanol at a rate not less than 50% of the Proposed Nameplate Capacity or 50% of the Approved Eligible Volume, whichever amount is lower.
“Proponent” means an entity that submits a proposal in response to this ITP.

“Proposal” means the full submission required by the proponent in order to be considered for financial assistance as described in this ITP.

“Proposed Capital Assistance” means the capital assistance amount requested by the proponent for the Project.

“Proposed Nameplate Capacity” means the design engineer’s rating of the annual undenatured anhydrous ethanol production capacity of the project in litres (L).

“Renewable” refers to a substance that can be reproduced indefinitely. For greater clarity, petroleum, natural gas and coal are not considered renewable.

“Successful Proponent” means a proponent that is offered a capital grant, loan guarantee and/or operating grant through the process described in this ITP.

“Successful Proposal” means a proposal for which a proponent is offered a capital grant, loan guarantee and/or operating grant through the process described in this ITP.

“Yield” means the volume of undenatured anhydrous ethanol that the project is expected to produce per unit of feedstock.

Registering Intent

Proponents are asked to inform the Government of Ontario by **October 21, 2005** of their intent to submit a proposal for capital and/or operating assistance under the Ontario Ethanol Growth Fund.

A Letter of Intent for one of or both Capital Assistance and Operating Grants should be sent to the address below by **October 21, 2005**. A sample Letter of Intent is included in this ITP (See Appendix B).

Modifications to the ITP

The Ontario Government reserves the right to modify this ITP at any time at its sole discretion. All proponents who submit a Letter of Intent will be simultaneously notified of any modifications to, or clarification of, this ITP and any additional information. The identities of the other proponents will not be revealed.
Enquiries and Additional Information

1) All enquiries and other communications about the OEGF and this ITP are to be directed to the following address:

   Ontario Ethanol Growth Fund Secretariat
   Policy and Programs Division
   Ontario Ministry of Agriculture, Food and Rural Affairs
   1 Stone Road West, 2nd Floor
   Guelph, ON   N1G 4Y2
   Email:  oegf@omaf.gov.on.ca

2) Enquiries must be in writing, submitted by mail, email, fax or courier.

3) Enquiries of a proprietary nature must be clearly marked “CONFIDENTIAL” at each relevant item. Confidential information will be treated accordingly. However, if two or more identical proprietary questions are received, the replies to significant enquiries will be made available simultaneously to all proponents that have registered their intent, without revealing the source(s) of the enquiries.

Eligibility of Proponents

An eligible proponent is a company, individual, cooperative or corporation that meets the proposal requirements and is not subject to a controlling interest by a municipal government. An eligible proponent for capital assistance is one that adheres to the above and that intends to build a plant, retrofit an existing plant not used for ethanol production, or expand existing facilities, to produce fuel ethanol in Ontario. An eligible proponent for operating assistance is one that adheres to the above and has an existing fuel ethanol production facility in Ontario or intends to build a plant, retrofit an existing plant not used for ethanol production, or expand existing facilities, to produce fuel ethanol in Ontario.
Proposal Submission

Application Closing Date

For applications to the OEGF for Capital Assistance and/or an Operating Grant, five (5) complete copies of each proposal in response to this ITP must be received by 2:00 pm Eastern Standard Time on November 10, 2005, at the following receiving address:

Ontario Ethanol Growth Fund Secretariat
Policy and Programs Division
Ontario Ministry of Agriculture, Food and Rural Affairs
1 Stone Road West, 2nd Floor
Guelph, ON N1G 4Y2

Proposals sent by regular mail, facsimile or email will not be accepted. Proposals must be delivered in sealed envelopes either in person or by courier. To ensure the integrity of the decision-making process, proposals will remain sealed and locked up at the receiving address and will not be opened or reviewed until after the closing date and time.

Submission of Proposals

It is the proponent’s responsibility to do the following:

1) Direct its proposal to the receiving address specified under “Closing Date” (above).

2) Arrange for timely and correct delivery of proposals to the specified receiving address.

3) The Government of Ontario will not assume, or have transferred to it, the above responsibilities. All risks and consequences of the incorrect delivery of proposals are the responsibility of the proponent.

4) Provide a comprehensive and sufficiently detailed proposal, including all requested details (see “Proposal Requirements” on page 9), to permit a complete evaluation in accordance with the selection criteria set out in this ITP.

The proponent is solely responsible for its expenses in preparing and submitting a proposal and for the subsequent preparation and execution of the agreement for capital and operating assistance.

Proposals received on or before the closing date and time will become the property of the Government of Ontario and will not be returned. All proposals will be treated as “PROTECTED” and will be subject to the provisions of the Freedom of Information and Protection of Privacy Act.
Late Submissions and Errors

Late submissions or adjustments to proposals already received will not be accepted or considered. Proposals received after the closing date and time will be returned unopened to the proponent, unless they qualify as delayed proposals (see “Delayed Proposals” below). It is the responsibility of the proponent to ensure that its proposal arrives before the closing date and time.

If a proponent discovers that an error has been made in its submission, the proponent may submit a correction notice to the receiving address before the closing date and time.

Delayed Proposals

1) A proposal delivered to the receiving address after the closing date and time may be considered, provided the delay is due solely to a delay in delivery that can be attributed to a courier or postal service. The only pieces of evidence of a delay that are acceptable are:
   a) a cancellation stamp date
   b) a courier bill of lading

   They must clearly indicate that the Proposal was mailed before the closing date and time.

2) For the closing date of November 10, 2005, the cancellation date stamp should read no later than November 9, 2005, to be accepted.

3) The proponent should ensure that the courier or postal service date-stamps the envelope.

4) Misrouting, traffic volume, weather disturbances or any other causes for the late delivery of proposals are not acceptable reasons for proposals to be considered.

Proposal Requirements

The Government of Ontario reserves the right to verify any information provided in the proposal. Untrue statements or the withholding of information may result in the proposal being declared non-compliant or being subject to other action that the Government of Ontario may consider appropriate.

All proposals must be signed by a person authorized to sign on behalf of the proponent in order to bind the proponent to statements made in response to this ITP.

Proposals should be marked “CONFIDENTIAL”.

Applications for Capital Assistance and Operating Grants must include, at minimum, the following information.
NOTE: Proponents applying for both Capital Assistance and an Operating Grant may submit one complete application that will be used in evaluating both forms of assistance.

PROPOSAL REQUIREMENTS

1) Contact information for individuals involved in preparing the proposal.

2) A description of the proponent that includes legal name and status, ownership, jurisdiction of incorporation, business registration number and type of activity.

3) A description of all partners that have more than five (5) percent ownership stake in the ethanol production facility, including their proportionate ownership.

4) Qualifications and experience of the management team of the ethanol production facility.

5) Regional economic data, including anticipated municipal taxes, number of employment opportunities, and letters of support from the local community.

6) A clearly stated Proposed Nameplate Capacity with supporting engineering documentation. Other forms of alcohol being/to be produced at the ethanol production facility should be stated, including the type(s) of alcohol and the amount of each being produced in litres.

7) A clearly stated proposed assistance amount, including the type of assistance requested, if applicable, (i.e. capital contribution or loan guarantee and/or operating grant) and a detailed rationale as to why the proposed assistance is required (see Appendix C for capital assistance).

8) A description of the proposed feedstock, including the following:
   a. A calculation of the annual quantity of the feedstock required for ethanol production, and documentation that supports the proponent’s ability to secure this quantity,
   b. The intended source(s) of the feedstock, including the percentage of local versus foreign feedstock, and whether they will be direct or indirect purchases;
   c. Documentation that supports the yield of ethanol;
   d. Signed letters of intent or any purchase agreements for the feedstock;
   e. Documentation that supports the ability of signatories to provide the applicable quantity of feedstock.

9) A description of total project costs with supporting documentation. For operating grant applications, a statement of total project costs is required from new and expanding plants; a statement of actual construction costs is required from existing plants. For capital assistance applications, provide a detailed itemized list of project costs (see below).
Reporting Project Costs

Project costs valid for assessment are to be incurred from June 17, 2005 to the Project Completion date and are as follows:

- Contract and salary costs for design and engineering;
- Building procurement and construction costs;
- Land purchase or long-term lease;
- Costs associated with environmental assessments for the Project;
- Costs for production systems and equipment costs, including monitoring and tracking systems; and
- Salary costs for implementing and commissioning the Project.

These costs must be acceptable to the Government of Ontario based on judgments and considerations, such as costs and labour rates reported for similar fuel ethanol production facilities.

Costs that will not be considered as part of the assessment are as follows:

- Research and development;
- Administrative buildings;
- Administrative overheads;
- Benefits;
- Marketing and public relations costs and salaries;
- Costs related to Project operation aside from commissioning related costs;
- Financing and legal fees;
- Insurance;
- Interest;
- Property taxes;
- All sales tax, including Provincial Sales Tax and the Goods and Services Tax;
- Any income tax or surtax;
- Costs related to the production of products other than ethanol for fuel ethanol and direct co-products;
- Fines and penalties;
- Depreciation of assets;
- Amortization of unrealized appreciation of assets;
- Provisions for contingencies; and
- Losses on other projects, contracts, investments, bad debts and expenses for the collection thereof.

10) Financial projections, including:
    a. A projected income statement;
    b. Cash flow projections for 5 years.

11) Project financing documentation, including:
    a. Detailed descriptions of all sources of project financing;
    b. Executed copies of all Conditional Financing Agreements;
c. Independently-audited financial statements or other documentation that supports the ability of each financier to provide the applicable funds to the Project.

12) Risk Management Plan (e.g., what plans are in place to deal with fluctuating market conditions, changes to marketing agreements, etc.).

13) For new or expanding plants, documents that support the technical feasibility of the project, including:
   a. A detailed description of the project design and production technology;
   b. A list of all technology and engineering partners for the project, including their relevant experience.

14) For new or expanding plants, project schedule documentation, including:
   a. A detailed description of the proposed Project schedule, including the construction and commissioning stages and the expected Project Completion Date;
   b. Documentation that supports the feasibility of the proposed Project Completion Date.

15) Copies of any signed letters of intent or purchase agreements for fuel ethanol produced at the ethanol production facility, including documentation that supports the ability of signatories to purchase the applicable quantity of fuel ethanol from the ethanol production facility.

16) Co-product information, including:
   a. A description of co-products and the expected annual production amount;
   b. Copies of any signed letters of intent or purchase agreements for co-products;
   c. Any documentation that supports the ability of signatories to purchase the applicable quantity of co-products from the ethanol production facility.

**Evaluation Criteria**

**Capital Assistance**

Evaluation of eligible proponents will be based on their ability to maximize the effectiveness of capital assistance to expand fuel ethanol production in Ontario, as demonstrated through the following:

- Strength of business plan (e.g. marketing, financials, and management);
  - Commitment by the proponent to build or expand a fuel ethanol production facility in Ontario that is based on renewable feedstock;
  - Ability to demonstrate that the proponent has secured viable conditional financing agreements or final financing agreements that cover total project costs less the proposed assistance;
  - Significant equity commitment on the part of owner(s) such that equity investments plus government contributions (secured or expected) amount to no less than 40% of the project construction cost;
o Ability to demonstrate that the proponent has secured access to the feedstock required for the proposed nameplate capacity;

o Ability to demonstrate that the proponent has secured viable letters of intent or purchase agreements for the fuel ethanol produced in their production facility;

o Ability to demonstrate that the proponent has secured viable letters of intent or purchase agreements for the co-products produced in their production facility;

- Existing construction or likelihood of progress towards construction as soon as practical
  o Technical feasibility of the proposed project;

- Regional economic impacts (jobs, increased business orders, support from community, potential impact on municipal revenue base, etc);

- Stage of project planning;

- Completeness of project costing exercise
  o Rationale as to why the proposed assistance is required.

### Operating Grants

Evaluation of eligible proponents will be based on their ability to maximize the effectiveness of operating grants, as demonstrated through the following:

- Contribution to meeting the 2007 ethanol RFS in Ontario
  o Commitment by the proponent to progress towards the production of fuel ethanol in Ontario that is based on renewable feedstock;

  o the ability to demonstrate that the proponent has secured access to the feedstock required for the proposed nameplate capacity;

  o the ability to demonstrate that the proponent has secured access to viable letters of intent or purchase agreements for the fuel ethanol produced in their production facility in Ontario;

  o the ability to demonstrate that the proponent has secured access to viable letters of intent or purchase agreements for the co-products produced in their production facility in Ontario;

- Regional economic impacts (jobs, increased business orders, support from community, potential impact on municipal revenue base, etc);

- Strength of business plan (e.g. marketing, financials, and management), including:
  o Rationale as to why the proposed operating grant amount is required.

### Decision Process

#### Due Diligence

All proposals will be screened for eligibility, and evaluated by OEGF administration. The OEGF administration will utilize external technical expertise during its due diligence process if necessary.

An inter-ministry committee, who will collectively evaluate all proposals and make recommendations concerning assistance to the Minister of Agriculture, Food and Rural Affairs.
Clarification of Proposals

The evaluation committee may, but is not obliged to, seek clarification of proposals by contacting proponents after the proposals are opened. The evaluation committee will be under no obligation to receive further information, whether written or oral, from any proponent. Modifications to proposals will not be accepted after the closing date and time, and no words or comments will be added to the proposal unless requested by the evaluation committee for clarification.

Communication of Results

It is expected that results will be announced by the third week of December 2005.

Individual proponents will receive notification about their proposal(s) by e-mail and courier, including the following information:

1) For ineligible proposals, the rationale
2) For eligible proposals:
   a. Capital Grant or Loan Guarantee and/or Operating Grant offered for agreement, with rationale
   b. Deadline for signing Capital Grant or Loan Guarantee Agreement and/or Operating Grant Agreement

Results that will be released to all proponents and publicly will include the following:

1) Legal names of successful proponents;
2) (Proposed) locations and Proposed Nameplate Capacity of the successful proponents’ ethanol production facilities; and
3) Capital Grant or Loan Guarantee and/or Operating Grant amounts.

Terms of Assistance

All Assistance Agreements

By submitting a proposal for a Capital Grant or Loan Guarantee and/or Operating Grant, the proponent agrees that, should it be identified as a successful proponent, it is willing to enter into an agreement (either a Capital Grant Agreement, Loan Guarantee Agreement or an Operating Grant Agreement) with the Government of Ontario, incorporating all the provisions set out in this Invitation to Proponents. Copies of the draft Capital Grant Agreement and Operating Grant Agreement will be available upon request.

Environmental and Other Regulations

Pursuant to the Canadian Environmental Assessment Act (CEAA) and, where appropriate, in coordination with the environmental or planning requirements of any Ontario statute or regulation or any municipal by-law, projects assisted through a Capital Grant Agreement or Loan Guarantee Agreement must obtain all applicable environmental approvals. Payments will not commence until the Government of Ontario receives acceptable evidence that all approvals are likely to be secured.

Neither the offering of a Capital Grant, Loan Guarantee or Operating Grant, nor the execution of any agreement, will constitute authorization of any activity or development that is contemplated
in proposals that requires any approval, permit or licence pursuant to any federal or Ontario statute or regulation or any municipal by-law.

**Disbursement of Payments**
OEGF capital grants will not be paid until completion of the ethanol production facility.

**Investment in Research and Development**
All Capital Grant Agreements will require proponents to contribute 20% of their capital grant amount to a Research and Development Fund over a period of time defined in the agreement.

**Reduction of Operating Grants**
In the first year that an operating grant recipient’s Internal Rate of Return on Free Cash Flow to Project (IRR) reaches or exceeds the threshold of 17.5%, OEGF operating grants will be reduced/repaid such that the grant recipient receives the value of 60% of what the operating grant formula would pay. In the second consecutive year that a plant reaches or exceeds the 17.5% threshold, OEGF operating grants will be reduced/repaid such that plant operators receive the value of 50% of what the operating grant formula would pay. In the third consecutive year that a plant reaches or exceeds the 17.5% threshold, OEGF operating grants will be reduced/repaid such that plant operators receive the value of 40% of what the operating grant formula would pay. Thereafter, an operating grant recipient would receive OEGF operating grant payments only in the event their IRR falls below 17.5%.

**Administrative Requirements**
Agreements will require that proponents do the following:

1) Submit independent engineering reports on the progress of the Project;
2) Keep proper accounts and records related to the terms and conditions contained in this Invitation to Proponents and signed Agreements;
3) Permit authorized representatives of the Government of Ontario to audit, inspect and make copies of those accounts and records at all reasonable times;
4) Grant authorized representatives of the Government of Ontario access to the ethanol production facility;
5) Furnish authorized representatives of the Government of Ontario with information as they may, from time to time, reasonably require with respect to terms and conditions contained in this Invitation to Proponents and signed Agreements;
6) Make any required repayments as per the signed Agreements.

**Funding**
In accordance with the Government of Ontario’s Policy on Transfer Payments, all agreements will include provisions for the cancellation or reduction of Capital Assistance or Operating Grants if funding levels are changed by the Legislature. In addition, all operating grant agreements will contain a clause that allows either the province or the program participant to renegotiate their agreement if either believes that circumstances, based on objective thresholds, have changed such that the agreement provides more or less support than needed to meet its intent. Further details will be provided in the draft Operating Grant Agreement.
Appendix A: OEGF Operating Grant Formula

The OEGF operating grant will depend on whether or not the price of fuel ethanol is trading within its normal historical relationship to the price of crude oil. An analysis of the relationship between crude oil and ethanol shows that the normal price range of ethanol is represented by the following statement:

\[ \text{CRUDE} + 13 \leq \text{ETOH} \leq \text{Crude} + 29 \]

Where:

- **ETOH** = Monthly average spot price of fuel ethanol at Chicago (converted to Canadian cents per litre) as reported by OPIS Fuel Ethanol and Biodiesel Report, or if necessary, an appropriate substitute;
- **CRUDE** = Average monthly price of West Texas Intermediate (WTI) crude oil as reported on the New York Mercantile Exchange (NYMEX) converted to Canadian cents per litre; The range between 13 cents and 29 cents represents a band within which most of the variability in fuel ethanol prices would normally occur. Specifically, it represents the band between the mean margin for fuel ethanol price and crude oil price between January 1990 and April 2005, plus or minus 1.5 standard deviations.

This range indicates that when the price of a litre of fuel ethanol lies between the price of crude oil plus 13 cents and the price of crude oil plus 29 cents no special adjustment will be made to the operating grant.

Under the above circumstances,

(a) When NYMEX WTI crude oil price is below CDN 27.5 cents per litre the operating grant payment per litre in Canadian currency will be determined as follows:

\[ 0.43 [(41.3 – \text{CRUDE}) + (\text{CORN} – 30.9)] \]

PLUS

\[ 0.15 (27.5 – \text{CRUDE}) \]

Where:

- **CORN** = Canadian equivalent corn price in cents per litre for a given month.
- **41.3** = Benchmark crude oil price in Canadian cents per litre that would be associated with a zero payment under generally favourable conditions.
- **0.43** = Proportion of risk that government assumes with price change.
- **0.15** = Proportion of risk that government assumes with price change.
(b) When NYMEX WTI crude oil price is above CDN 27.5 cents per litre, the operating grant payment per litre in Canadian currency will be calculated as follows:

\[ 0.43 \left( 41.3 - \text{CRUDE} \right) + (\text{CORN} - 30.9) \];

However, given the risk posed by ethanol price variability, when the price of ethanol does not trade within its historical relationship to crude oil price, such that

\[ \text{ETOH} < (\text{CRUDE} + 13) \]

the OEGF operating grant amount per litre under (a) and (b) will be increased as follows:

\[ 0.5 \left( \text{CRUDE} + 13 \right) - \text{ETOH} \]

This adjustment will generate a positive number that will increase the payable grant under (a) or (b) above, such that government covers half of the ethanol producer’s loss in market revenue due to lower than normally expected ethanol prices.

However, when the price of fuel ethanol does not trade within its historical relationship to the price of crude oil, such that

\[ \text{ETOH} > (\text{CRUDE} + 29) \]

the OEGF operating grant amount per litre will be reduced as follows:

\[ 0.5 \left( \text{CRUDE} + 29 \right) - \text{ETOH} \]

This adjustment will generate a negative number that will reduce OMAFRA’s grant payouts under (a) or (b) above, by half of the ethanol producer’s increase in market revenue due to higher than normally expected prices for fuel ethanol.

**Example 1:**
Price of crude oil = US $38/barrel
Price of corn = US $2.40/bushel
Price of fuel ethanol = US $1.60/gallon

⇒ Assumed exchange rate = US $0.80/CDN $1.00

Convert above prices to Canadian cents per litre of ethanol equivalent:
CRUDE = US $38/barrel x 1 barrel/159.1 litres x CDN $1.00/US $0.80
= CDN 29.86¢/litre

CORN = US $2.40/bushel x 1 bushel/9.71 litres x CDN $1.00/US $0.80
= CDN 30.89¢/litre

ETHANOL = US $1.60/gallon x 1 gallon/3.78 litres x CDN $1.00/US $0.80
= CDN 52.91¢/litre

Substitute into CRUDE + 13 ≤ ETOH ≤ Crude + 29:

\[ 42.86 \leq 52.91 \leq 58.86 \]
TRUE: price fuel ethanol is trading within its normal historical relationship to the price of crude oil. Therefore, the ethanol adjustment factor is not used in this case.

Also, price of crude oil is above CDN 27.5 cents per litre. Therefore, substitute prices into option (b):

\[ 0.43 \times [(41.3 - 29.9) + (30.9 - 30.9)] \]

OEGF operating grant amount = 4.9

Example 2:
Price of crude oil = US $38/barrel
Price of corn = US $2.00/bushel
Price of fuel ethanol = US $1.20/gallon

Assumed exchange rate = US $0.80/CDN $1.00

Convert above prices to Canadian cents per litre of ethanol equivalent:

\[
\text{CRUDE} = \text{US$38/barrel} \times 1 \text{ barrel}/159.1 \text{ litres} \times \text{CDN$1.00/US$0.80} = \text{CDN 29.86¢/litre}
\]

\[
\text{CORN} = \text{US$2.00/bushel} \times 1 \text{ bushel}/9.71 \text{ litres} \times \text{CDN$1.00/US$0.80} = \text{CDN 25.75¢/litre}
\]

\[
\text{ETHANOL} = \text{US$1.20/gallon} \times 1 \text{ gallon}/3.78 \text{ litres} \times \text{CDN$1.00/US$0.80} = \text{CDN 39.68¢/litre}
\]

Substitute into \( \text{CRUDE} + 13 \leq \text{ETOH} \leq \text{Crude} + 29 \):

\[ 42.86 \leq 39.68 \leq 58.86 \]

First half of statement is FALSE: price fuel ethanol is trading outside its normal historical relationship to the price of crude oil. Therefore, the ethanol adjustment factor must be applied so that OEGF operating grant amount per litre is increased.

Also, price of crude oil is above CDN 27.5 cents per litre. Therefore, substitute prices into option (b) and apply appropriate ethanol adjustment factor:

\[ 0.43 \times [(41.3 - 29.9) + (25.8 - 30.9)] \]

\[ \text{PLUS} \]

\[ 0.5 \times [(29.9 + 13) - 39.7] \]

OEGF operating grant amount = 4.3

NOTE: 1. In the event a feedstock other than corn is used in the proposed plant’s ethanol production, the formula used to calculate the grant amount will be adjusted. This formula will appear in any Operating Grant Agreement signed by both parties.

2. The exchange rate used in the operating grant formula will be the rate at the time of calculation.
Appendix B: Sample Letter of Intent for OEGF

Letterhead or Proponent’s Name and Address

Date

Ontario Ethanol Growth Fund Secretariat
Policy and Programs Division
Ministry of Agriculture, Food and Rural Affairs
1 Stone Road West, 2nd Floor
Guelph, ON N1G 4Y2

Subject: Letter of Intent for Ontario Ethanol Growth Fund Capital Assistance/Capital Assistance and Operating Grant/Operating Grant (Indicate type(s) of assistance being applied for)

Dear Sir/Madam:

This letter of intent is submitted in response to the Invitation to Proponents for the Ontario Ethanol Growth Fund. Through this letter, we wish to indicate that we intend to submit a full application as outlined in the Invitation to Proponents to the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) by November 10, 2005 for Capital Assistance/Capital Assistance and Operating Grant/Operating Grant (indicate the type(s) of assistance being applied for, including the type of Capital Assistance (i.e. capital grant or loan guarantee)). Accordingly, we confirm our agreement and acceptance of all of the terms and conditions outlined in the Ontario Ethanol Growth Fund: Invitation to Proponents (OEGF ITP).

We have carefully read and examined the OEGF ITP and will conduct other such investigations that are prudent and reasonable in preparing the Proposal. We agree to be bound by statements and representations made in our future submission and by any agreement resulting from the Proposal.

With respect to capital assistance, we are aware that OMAFRA reserves the right to determine whether a capital grant or a loan guarantee would be the most appropriate way to address the need for plant construction assistance for our project.

We are also aware that OMAFRA reserves the right to verify any information provided in our future submission, and that untrue statements or the withholding of information may result in the Proposal being declared non-compliant or being subject to other action that OMAFRA may consider appropriate.

Signature
Name:
Title:
Legal name of Proponent:
Location of Ethanol Production Facility:
Proposed Nameplate Capacity:
Appendix C: Proposed Capital Assistance

The following table is an example of how information should be presented in the proposal to satisfy the requirement of defining the proposed capital assistance amount. Details of contributions from other sources should be defined in a footnote.

NOTE: Proponents must demonstrate significant equity commitment on the part of owner(s) such that equity investments plus government contributions (secured or expected) amount to no less than 40% of the project construction cost.

<table>
<thead>
<tr>
<th>FUNDING SOURCES</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proponent’s equity investment</td>
<td>$ 30,000,000</td>
</tr>
<tr>
<td>Contributions from other sources:</td>
<td></td>
</tr>
<tr>
<td>• Federal government</td>
<td>$ 10,000,000</td>
</tr>
<tr>
<td>• Provincial/municipal</td>
<td>$ 2,000,000</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$ 42,000,000</strong></td>
</tr>
<tr>
<td>Proposed capital assistance under OEGF</td>
<td>$ 6,000,000</td>
</tr>
<tr>
<td><strong>Proposed Equity</strong></td>
<td><strong>$ 48,000,000</strong></td>
</tr>
<tr>
<td>Capital Loan (1)</td>
<td>$ 56,000,000</td>
</tr>
<tr>
<td>Capital Loan (2)</td>
<td></td>
</tr>
<tr>
<td><strong>Project Cost</strong></td>
<td><strong>$104,000,000</strong></td>
</tr>
</tbody>
</table>