



**Market Renewal Program (MRP) - Comments received on the Draft CES-Style Term Sheet**

On September 30, 2019, the IESO released a draft term sheet with proposed changes to be included in a future amendment as it relates to MRP impacts on CES-style contracts (the "Contracts"). The IESO requested comments and feedback. The IESO appreciates the comments and questions submitted by Contract counterparties and other stakeholders. All feedback received has been noted and will be considered as the IESO moves forward in addressing the implications of MRP on the Contracts. Below, the IESO has provided a table that excerpts or summarizes specific feedback and questions received and provides responses to such feedback and questions. This document is provided for information purposes only. It does not constitute, nor should it be construed to constitute, legal advice or a guarantee, offer, representation or warranty on behalf of the IESO. In the event of any conflict or inconsistency between the information contained in this document and the Market Rules, the Market Manuals, any IESO Contract or any applicable legislation or regulation, the provisions of the Market Rules, Market Manuals, Contract, legislation or regulation, as applicable, shall govern. This document is being provided without prejudice to any party's rights or remedies under any Contract and does not constitute an amendment or waiver of any terms or conditions of any contract.

If there are additional questions, or if further clarity is required, please contact Contract Management via email at: [mr.ContractManagement@ieso.ca](mailto:mr.ContractManagement@ieso.ca).

[To download a copy of the publication - IESO's Approach to Amending Market Participant Contracts, click here.](#)

No.	Comment	Response
1	After initial review of the Draft Term Sheet, the proposed Amending Agreement is overly simplistic. In particular, the replacement of HOEP in the existing Contract with a new defined term, the Applicable Day-Ahead Hourly Locational Marginal Price ("ADAHLMP"), does not sufficiently address the complexity or uncertainty related to MRP and its impact on the Contract.	It is the IESO's view that the replacement of HOEP with ADAHLMP is a principled approach that aligns with and fulfills the requirements of Section 1.7 - Introduction of the Day-Ahead Energy Forward Market; and Section 1.8 - Evolution of the IESO Administered Market, of the Contract. If Suppliers identify any specific complexities or uncertainties related to MRP that impact the terms of the Contract and are not addressed by this approach, the IESO encourages Suppliers to identify these, and propose how they may be addressed within the requirements of Sections 1.7 and 1.8 of the Contracts.
2	It is recommended the IESO revisit previous correspondence that generators have provided to the IESO through various meetings, webcasts, etc. In each of these sessions, concern has been noted with the IESO taking a "mechanical" view of the contractual amendments they would be pursuing with respect to the MRP.	The IESO considered the previous feedback received when preparing the draft Term Sheet. The IESO has not been provided any clear justification why it is not appropriate to follow the terms that are laid out in the Contract or why it would be more appropriate to deviate from the terms of the Contract. Absent this, the IESO has proposed a principled approach that aligns with and fulfills the requirements of the express provisions of the Contracts. If Suppliers view another approach as more appropriate, the IESO encourages such Suppliers to specifically identify the rationale and to propose an approach that in their view would be better aligned with the terms of the Contracts.
3	The proposed changes in the Draft Term Sheet cannot ensure that the Supplier's economics are preserved. The term sheet does not address complex concepts such as the impact of three part offers on the contract and generators, or the impacts of other proposed changes associated with MRP such as changes to rules around market power mitigation, constraints, and losses.	The IESO believes that it accurately and consistently applied the terms of the Contracts to address the changes that are being contemplated by MRP. The IESO does not see how three part offers, market power mitigation, constraints, or losses impact the Contract or the Supplier's economics as contemplated under the Contract, but would be interested in further details of Suppliers' perspectives in this regard.
4	Preservation of Supplier economics in accordance with the agreements requires a principled approach and may require amendments that go beyond mechanical changes to the Contracts. Consider that the design of the Contract assumed that Suppliers would operate efficiently by producing during hours in which the pre-dispatch price and the real-time market prices exceeded the Supplier's energy cost. The alignment of the Contract incentives with the IESO-market dispatch mechanism is a critical component of the Supplier's ability to manage its volume and price risk under the Contract and is necessary to preserve the effectiveness of the Contract's hedging function. To the extent that the proposed Contract amendments fail to account for changes to the Market Rules that de-link the imputed calculation from the Supplier's physical operations, the Supplier's economics will no longer substantially reflect what was contemplated in the Contract.	The IESO agrees that a principled approach should be applied, but has not been provided any clear justification for why amendments should go beyond what is prescribed by the terms of the Contracts. The express terms of the Contracts prescribe the treatment for deeming in the day-ahead in the event that a day-ahead market is introduced, as is contemplated by MRP. It is the IESO's view that the proposed amendments represent a principled approach that aligns with and fulfills the requirements of these express terms. The relevance of the comment about de-linking the imputed calculation from the Supplier's physical operations is unclear to the IESO, as the Contracts are financial hedges that do not have a direct link to actual physical operation of a Facility. Further, we expect that the financial nature of the deeming process provides a more consistent hedge to a binding day ahead commitment, when compared to the present real time deeming mechanism.
7	In addition to looking at market parameters to calculate Imputed Net Revenue, the IESO should also consider changes in the Variable Energy Cost in order to maintain the principal of aligning Contract and market incentives. For example, future locational marginal prices will incorporate both losses and constraints; how will these two components be reflected in the calculation of the Variable Energy Cost?	The IESO believes that it accurately and consistently applied the terms of the Contracts to address the changes that are being contemplated by MRP. It is not clear to the IESO how parameters that impact the calculation of locational price, such as losses and constraints, would have any impact on Variable Energy Cost. The IESO would be interested in understanding how elements of a price that is paid to a generator impact its variable cost to generate electricity.