

Feedback Form

Long-Term RFP – February 8, 2022

Feedback Provided by:

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Following the February 8th public webinar on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on a variety of elements to help further inform the draft RFP and Contract, including: potential revenue streams, contracting mechanisms, term length and forward period, ability of resources to meet mandatory requirements and rated criteria, as well as the general approach to the RFQ including the proposed method to evaluate finances and experience.

The referenced presentation can be found on the [Long-Term RFP webpage](#).

Please provide feedback by February 18, 2022 to engagement@ieso.ca.

Please use subject header: **Long-Term RFP**. To promote transparency, this feedback will be posted on the [Long-Term RFP webpage](#) unless otherwise requested by the sender.

The IESO will work to consider and incorporate comments as appropriate and post responses on the webpage.

Thank you for your contribution.

Revenue Streams

Topic	Feedback
<p>Please provide feedback on the revenue stream options that the IESO proposed.</p> <p>Are there additional revenue streams that proponents see that can be monetized?</p>	
<p>Other jurisdictions have procured new-build resources under long-term agreements through a variety of contract types (power purchase agreements, capacity only contracts, capacity contracts with energy components, etc.). What lessons do stakeholders have from their experience with these other contracting mechanisms?</p>	
<p>What opportunities do stakeholders see in the future to monetize environmental attributes ?</p>	

Term Length and Forward Period

Topic	Feedback
<p>Please provide feedback on the options for additional term-length that the IESO proposed.</p>	
<p>Do stakeholders feel that the options presented provide proponents with some certainty from an investment and/or financing perspective?</p>	
<p>What are some options for additional term that the IESO should consider?</p>	
<p>Are stakeholders aware of any resources (new-build and/or expansions to existing resources) that able to come into service as early as 2025?</p> <p>What challenges would resources face with being fully operational by 2025?</p> <p>Please provide any additional information that may help inform the IESO of potential projects and their development timelines, in order to help guide discussions around LT I RFP forward periods.</p>	

Mandatory Requirements and Rated Criteria

Topic	Feedback
Please provide feedback on the mandatory requirements the IESO proposed.	
The IESO presented a number of technical characteristics that are desirable from a system value perspective, that may form rated criteria in LT I RFP. Please provide feedback on the characteristics proposed and their applicability as rated criteria.	

RFQ

Topic	Feedback
Do stakeholders feel that the high level approach proposed for the RFQ satisfies the IESO's goal of ensuring that interested parties have the capability to undertake project development for the LT I RFP, while also enabling competition?	

General Comments/Feedback

APPPrO LT-RFP Comments¹

A robust electricity system requires ongoing investment to maintain existing assets and build new ones, as they are required. Ontario faces a significant capacity challenge at this time: *"The 2021 outlook is projecting a significant amount of both change and opportunity in the sector over the next two decades as the province's supply mix begins to evolve and newer sources of electricity demand play a prominent role in driving future needs."*²

It is APPPrO's view that this is a critical time for Ontario's electricity sector. The IESO has recently communicated that there is need for over 1000 MW of new supply in 2025, representing a halving of the development timeline previously communicated. APPPrO notes the IESO has publicly stated that resources are "not necessarily needed" by 2025, but respectfully considers this position to be incongruent with other materials presented. Accordingly, comments provided here are made with careful consideration for the urgency of the need, the challenges being managed by the IESO, and the commercial realities of power project development.

¹ See also APPPrO Resource Adequacy Feedback for IESO, October 2020.

² IESO, 2021 Annual Planning Outlook

Market Context and Commercial Realities

Incremental investment in existing and new assets requires a pool of owners, developers and investors with necessary expertise, capital, and appetite to participate in the Ontario market. Incremental investment decisions are fundamentally capital allocation decisions. Disciplined capital allocators consider not only the features, benefits and risks of the Ontario market, but the features, benefits and risks of all other markets and investments opportunities. Capital allocation decisions are driven by a comparison of all potential market opportunities, and assessments of whether forecasted returns provide sufficient compensation for risks taken. For investors, developers and owners of power projects, risk pricing is impacted by numerous factors including development risk, construction cost, fuel availability/price, operating cost, government policy, demand, market prices, contract lengths measured against the economic life of the investment, regulatory risk, inflation considerations, and market structure.

Developers face global opportunities for their time, capital and expertise at a time when Ontario urgently requires the commitment, expertise and capital of incumbents and qualified new entrants to meet Ontario's unique long-term resource needs emerging in less than three years.³ Whether currently participating in Ontario, or considering investing in its future, all investors will assess opportunities and the RA Framework with the expectation that it will fairly balance the allocation of risk between ratepayers and generators.

Ratepayers benefit from competition from highly qualified investors

Market structure, regulatory frameworks, and government policy impact cost and availability of capital

From the perspective of the developer and the ratepayer, procurement arrangements should be tailored to ensure that the most cost-efficient portfolio of assets is developed in the province. Market structure, market history, and regulatory frameworks are critical factors when considering whether, and at what price, to invest. Where markets have no history of enduring market mechanisms or sufficient liquidity, capital allocators will price this risk before determining whether the market can support an investment.

Every jurisdiction has unique features, and these must be taken into account when considering procurement options, but Ontario's unique features cannot be ignored, especially at this critical juncture. Put simply, the conditions supporting competition in other liberalized markets do not exist in Ontario, and it is yet to be seen whether Market Renewal will have any meaningful impact in this respect. Revenue mechanisms necessary to attract new investment in Ontario must directly address the risks unique to investing in Ontario in order to attract competitive and qualified providers of low-cost capital.

Market size, liquidity, bilateral activity (such as financial hedges), availability and experience of investors and more all play a role. As well, government's role in the market, both through the implementation of policy and through directed investment, is a critical risk factor that will be considered by investors when assessing the post-contract investment returns.

³ LTRFP - Qualification Overview

Contract term and contract design impact availability and cost of capital

The cost of equity and debt financing will be greatly impacted by investor assessments of conditions supporting revenue sufficiency. Revenue sufficiency is defined as the reasonable expectation that investors will earn enough revenue to recover their capital and operating costs and earn a return on their investment.⁴ Uncertainty and risk are costly, and term lengths designed with regard to the economic life of the investment can serve to lower these costs. We strongly encourage the IESO to consider term lengths that consider the economic life of the resource required, recognizing that where term length falls short of the resource's economic life, post-contract revenues will be assessed with consideration to Ontario's unique market structure. Accordingly, APPrO notes that it is not unreasonable to expect that even where contract terms are less than the economic life of the investment, investors and providers of capital will still require contracts to provide opportunity to recover the net present value of the investment over the shorter contract term.

Contracts also need to provide developers with the ability to contract for the value of various revenue streams (energy, capacity, RECs, etc.) at the time of contract execution. The IESO has provided stakeholders with options to consider for structuring contracts, and APPrO believes that there is some flexibility with respect to how contracts are designed, but that these considerations should be discussed in more detail once there is there is clarity with respect to contract term length and contract revenue streams.

The LTRFP process must allow new and existing resources to compete

The LT RFP should not be limited to new build alone. It should be offered to any resource that is available to participate to provide the products and services sought by the IESO. If an existing asset is not able to compete in the Medium-Term RFP or if this option is not profitable for that resource, then the resource/asset will shut down and the asset's capacity will be lost to the system.

Finally, imports must compete on a level playing field with in-province generation. In this respect, see APPrO's recent submission on Border Carbon Adjustments⁵.

The importance of the LTRFP and future planning processes on long-term competitiveness of Ontario's electricity market

APPrO believes that Ontario ratepayers benefit from conditions that support competition and considers the points made here with respect to term length and revenue sufficiency considerations to be entirely consistent with the overarching goal of furthering competition in Ontario's electricity sector. APPrO also believes it's important to recognize that the IESO's timeliness of communication and transparency with regard to system need and procurement plans have material impacts on competition and the potential value it can bring to Ontario. Planning processes that are robust, fact-based, open and transparent, publicly contestable and stable over time will contribute to the availability of information, and fostering of competition that will help to encourage cost-efficiency over the long-term

⁴ AESO Pricing Framework Recommendation Report 2020 available at <https://www.aeso.ca/assets/Uploads/Pricing-Framework-Recommendation-Report-2020-FINAL.pdf>

⁵ APPrO Comments on Finance Canada's discussion paper "Exploring Border Carbon Adjustments for Canada", February 2022.