October 21, 2022

Submitted to LT.RFP@ieso.ca & engagement@ieso.ca

Subject: Feedback on the draft E-LT1 Contract

Evolugen by Brookfield Renewable welcomes the opportunity to provide feedback on the draft E-LT1 Contract (dated Oct 17, 2022) and the Request for Proposal process in general.

Materials Cost Indexation Adjustment (MCIA)

While we appreciate the changes proposed by the IESO, the risk of unpredictable material costs remains *the* dominant factor that would determine a project's offer price and success. As detailed in our previous comments, we urge the IESO to adopt a flexible "menu" approach, where the IESO establishes a number of parameters for developers to select—based on developers' organizational, project, and financing circumstances. This approach would allow the IESO to verify and control the general soundness of the MCIA mechanism, while allowing: a) the RFP to remain technologically neutral, b) the process to be fair and transparent, and c) developers the flexibility to "match" their cost risks independently.

For example,

- Instead of *fixed* ratios in the Storage MCIA formula, developers would choose the ratios that best fit their unique projects. In this context, Evolugen would request a ratio of:
    - 100% Lithium
    - 0% broad materials index and CPI
- Developers would choose what Lithium index to apply. In this context, Evolugen would request the Shanghai Metals Market Lithium Carbonate index.
- Developers would choose what % of the MICA weighting to apply—with the proposed 100% as the maximum cap. In this context, Evolugen would request a 10% hedge at this stage.

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- Developers would choose the duration and the timing of the MCIA Calculation period to apply—with the proposed 18-month period as the maximum cap.

Each developer has their unique risk tolerance, project specifications, and financial models. We outlined our requests above (e.g., 100% Lithium allocation) not only to put forward our preferences for the IESO's consideration, but also to suggest that other developers might have vastly different preferences. As a result, a *fixed* MCIA mechanism would not hedge cost risks on an individual basis: a generalized and *fixed* MCIA mechanism simply cannot be a good fit for all. What's more, as the MCIA parameters are mutually dependent, it is difficult to determine a developer's preference for a *particular* fixed parameter without considering other parameters at the same time. For example, if the proposed *fixed* MCIA ratios poorly match a developer's model, said developer might not accept a *100%* hedged MCIA (again, the fact that the 100% figure is fixed as currently proposed contributes to the challenge), thus rendering the MCIA mechanism irrelevant. These issues can be simply addressed if the IESO establish the parameters and their caps, and allow developers to select the most appropriate ratios and inputs themselves—within the ranges defined by the IESO. In this context, the IESO would: a) retain control of the adjusted contract prices' floor and ceiling (i.e., this flexible approach would not create unexpected variations in the final prices in comparison to the *fixed* method), and b) allow developers to offer de-risked and economical projects.

The MCIA remains our biggest challenge to develop economical projects for the RFP. Nevertheless, below are a number of additional recommendations and questions for the IESO's consideration:

- Re: Supplier Diversity
    - We recommend a higher MW floor and MW carve-out for storage projects. Given the extremely short development timeframe, the unpredictable supply chain and cost risks, not to mention deliverability constraints that are out of developers' control, it would be to the IESO's benefit to receive as many storage projects and MWs as possible, for individual projects to then compete on price. The MW floor and target carve-out, as

currently proposed, would discourage developers from offering as many storage projects as possible, as well as projects with higher MWs (which typically lowers costs).

- Re: Proposal Price Ranking
  - Please provide examples of how the outlier bid mechanism would be applied (slide 22 of the Oct 18 presentation).
- Re: Deliverability Test
  - We disagree with non-storage projects taking priority over storage projects. Deliverability Testing should be evaluated on a regional, project vs. project, and technologically neutral basis. The proposal unfairly penalizes storage projects and their developers, who are shouldering the risk of investing in a new technology type in Ontario.
- Re: Insurance Covenants—Draft Contract Section 2.8(c)
  - We iterate our objection to the requirement to submit "copy of each insurance policy." Most if not all corporations and developers possess corporation wide insurance policies which we are unable to share externally in their entirety, we propose the following amendments instead (key highlighted in yellow):
    - Within ten (10) Business Days of any request therefore by the Buyer, the Supplier shall provide the Buyer, via electronic submission, with an electronic certificate of insurance, which confirms the relevant coverage, and that is issued in the name of, or otherwise confirms coverage of the Supplier and the Facility as applicable.
- Re: CIB presentation
  - What is the minimum sponsor equity investment (as a % of total project costs, excl. project financing) required by the CIB?
  - Will the royalty rate be sized based on the contracted revenues associated with the ~22yr IESO contract, with years 23-30 (if applicable) being upside?
  - Will the CIB investment be funded pro-rata with equity/project financing throughout the construction period?

- Given the additional revenue beyond the capacity payment, would CIB consider setting the royalty rate on total revenues, opposed to just the capacity revenues?

Thank you,

Julien Wu

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