Feedback Form

Long-Term RFP – November 7, 2022

Feedback Provided by:

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Following the November 7th public meeting on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on the proposed deemed generation model.

The referenced presentation can be found on the Long-Term RFP webpage.

Please provide feedback by November 14, 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.

Thank you for your contribution.

Deemed generation model

Topic	Feedback
Do you support the proposed approach with fixed VOM and CRE value? Please explain why or why not.	Evolugen supports the proposed fixed VOM and CRE values in the IESO's proposed Capacity Contract with a Daily Energy Adjustment model. This proposal will simplify the adjustment mechanism, while still offering a very effective adjustment as these metrics (i.e., VOM & CRE) should be very similar across different storage projects.
Do you have any feedback on the use of non-continuous 4 hours in the model?	Evolugen is not supportive of using non-continuous 4-hours in the model. This structure would assume perfect hindsight from operators, and would result in a Daily Energy Spread that is higher than what can be reasonably achieved by storage operators.
Is there anything further you recommend be considered with respect to the implementation of this alternative model?	We are in support of the IESO proposed alternative Daily Energy Adjustment model because it incentivizes storage projects to cycle daily. We believe this is the ideal operating mode for storage devices to offer the most system value to ratepayers. Developer-Owner-Operators such as Evolugen with market arbitrage expertise, and the experience operating and optimizing hydro facilities with storage, have the confidence and track-record to match our dispatch decisions to market conditions. What's more, the proposed model—when settled on the Day-Ahead Market—will provide operators with marketing expertise another chance to optimize dispatch in Real-Time and follow market signals even closer. Ultimately, this proposed model provides storage owners and operators a strong incentive to not just offer Operating Reserves, but also to design their Energy offer strategy so that the project can be dispatched by the IESO as needed.

Topic	Feedback
Do you have any general feedback on the two models presented, including any feedback on financeability?	Evolugen supports the IESO proposed alternative Daily Energy Adjustment model because it de-risks energy spread revenues over the 22-year contract life: a key consideration in financeability. As a result, projects will have a greater portion of total revenues contracted, and therefore higher debt ratios will be achievable in project financing. This will in turn lower the weighted average cost of capital, and result in savings and a lower total cost of electricity for Ontario ratepayers. However, this revenue model will require adjustment and more clarity in relation to the CIB financing structure. As the CIB royalties are based on contracted revenues: it will be important to know if the Daily Energy Adjustments will be netted out from the contracted UCAP revenues when establishing CIB royalties.
Do you have any feedback on potential market and operational impacts between the two models?	The IESO's proposed alternative Daily Energy Adjustment model will incentivize storage resources to follow market signals much better than Capacity-only contracts with collar on energy spread. Moreover, this model sends a clear signal to the developer community that storage projects should be built to enable daily cycling. In contrast, a hedging structure with a monthly collar on average daily energy spreads will create distortions and incentives that may not be aligned with the Real-Time and Day-Ahead energy markets, and this for 20+ years of contract life.

Materials Cost Index Adjustment (MCIA): Lithium

Topic	Feedback
Do you have any feedback on the appropriate weighting for lithium in the MCIA?	Again, we believe the weighting for the cost of Lithium in the MCIA should be determined by the proponents and selected at time of bid submission. Such a flexible mechanism would not be prone to "gaming." Project developers are already presented with many significant risks in the Exp-RFP, and this material costs exposure is an unavoidable risk that needs to be borne by "someone"—be it the developer, the BESS supplier, or both (in an integrated company). In all cases, the IESO will receive a final offer price (post-adjustment) that reflects a project's MCIA exposure. A flexible and developer-selected weighting mechanism would best mitigate lithium and material pricing volatility, thus resulting in a lower offer price for the IESO. Evolugen has been in discussion with most of the major BESS Integrators, and we have seen considerable variations in the Indexation mechanisms offered. A fixed weighting would simply not be helpful nor applicable to all developers and their suppliers. In sum, a mismatch between the indexation mechanism of the IESO and that of the BESS Integrators or battery cells suppliers would result in an ineffective hedge, which would actually increase costs risk instead of reducing it. As a result, the fixed MCIA might not be adopted by project proponents at all.

General Comments/Feedback

Evolugen would like to reiterate that a contract structure with more certainty on revenue streams will result in the most cost-effective procurement, and in turn reduce total electricity costs to ratepayers. Uncertainty related to merchant revenues such as the energy spreads, combined with considerable market and regulatory uncertainty over the 22-year contract life, will translate into conservative assumptions from project proponents, and consequently be more expensive for ratepayers. More certainty on revenues will maximize financieability, lower the weighted average cost of capital, and result in the most competitive outcome for the RFPs.

Evolugen strongly supports implementing the alternative Daily Energy Adjustment model for storage resources in the Expedited-RFP and future procurements to come.