Chuck Farmer
Vice President, Planning, Conservation and Resource Adequacy
Independent Electricity System Operator
1600-120 Adelaide Street West
Toronto, ON M5H 1T1

July 13, 2023

Dear Chuck,

This submission responds to the Independent Electricity System Operator's (IESO's) release of the draft LT 1 RFP (the "draft RFP") and draft LT 1 Contract (the "draft Contract"), dated May 26, 2023[1] and IESO's June 29, 2023 stakeholder engagement meeting presentation.[2] All capitalized terms in this letter have the meanings ascribed to them in the draft RFP and draft Contract, as the case may be, unless defined otherwise in this letter.

The Consortium appreciates and commends IESO's continued stakeholder engagement regarding RFPs and contracts to procure needed supply resources, as well as stakeholder engagements relating to power system plans at Capacity Auctions. After many discussions within the Consortium, within this submission we have decided to resubmit comments despite previous feedback received from IESO relating to the E-LT1 RFP and contract. Based on experience that many Consortium members have regarding procurement processes and project development within other jurisdictions, we continue to believe that key aspects of IESO's RFPs and contracts should be open for further stakeholder engagement (e.g., indexation, etc.) especially considering competition for development capital and market trends (e.g., supply chain, interest rates, etc.).

Power Advisory has coordinated this submission on behalf of a consortium of renewable generators, energy storage providers, and the Canadian Renewable Energy Association (CanREA) (the "Consortium"[3]).

We have the following comments on the draft RFP and draft Contract.

[1] See https://www.ieso.ca/en/Sector-Participants/Resource-Acquisition-and-Contracts/Long-Term-RFP-and-Expedited-Process

[2] See https://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/Long-Term-RFP

[3] The members of the Consortium are: CanREA; Axium Infrastructure; BluEarth Renewables; Boralex; Capstone Infrastructure; CarbonFree Technology; Connor, Clark & Lunn; Cordelio Power; EDF Renewables; EDP Renewables; Enbridge; ENGIE; Evolugen (by Brookfield Renewable); H2O Power; Kruger Energy; Liberty Power; NextEra Energy Canada; Pattern Energy; and Potentia Renewables; wpd Canada.

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Draft RFP Comments

Municipal Support Resolutions

We believe that obtaining a Municipal Support Resolution (MSR) should not be a mandatory requirement in Stage 2 of the evaluation process. IESO had first proposed making it a mandatory requirement at its March 28, 2023 stakeholder engagement meeting. We understand and appreciate the importance of engaging with and obtaining the support of the communities in which projects will be located but believe it will facilitate competition if this is treated in the same fashion as it was in the E-LT 1 RFP. Having an MSR at Proposal Submission should remain a Rated Criterion in Stage 3 of the evaluation process. We also request that Proponents be allowed to reuse MSRs obtained as part of the E-LT 1 RFP for the LT 1 RFP.

Eligible Expansions

We welcome the expansion of the definition of Eligible Expansion projects but request that requirement that the expansion be of the same technology as the existing technology be removed to allow for construction of any kind of energy storage or non-storage expansion project at an existing contract facility. We think that this will encourage the development of more projects. It will also leverage synergies that different types of technology on the same site can create.

Draft Contract Comments

IESO Market Rule Protection

As we have consistently commented on during the E-LT 1 RFP process, the IESO Market Rule protection in Section 1.6 of the draft Contract is much narrower than in previous IESO contracts. This contractual IESO market rule protection only protects a Supplier from incurring increased costs associated with Must-Offer Obligation compliance because of an IESO amendment to the Market Rules. These increased costs also exclude fixed costs, which we think should be removed since a market rule change could conceivably increase a Supplier's fixed costs.

We do welcome the inclusion of subsection 1.6(c) dealing with a Storage Market Rule Disincentive but we continue to believe that any adjustment to the Fixed Capacity Payment should not be capped since the quantum of the impact of the Storage Market Rule Disincentive could conceivably be so large that a 15 percent increase in the Fixed Capacity Payment may be insufficient to cover the costs. The lack of more robust market rule protection continues to present a considerable risk for Suppliers notwithstanding the fact that IESO is paying for capacity and not energy. For example, IESO stated that changes to the power system's network model to fully integrate all energy storage technologies through respective participation models will not be addressed until after the Market Renewal Program's (MRP's) May 2025 scheduled implementation. Consequentially, for Proponents developing a Battery Energy Storage System (BESS), they have no idea how future changes to the network model, in combination with new MRP related rule amendments will impact how BESS will be scheduled, committed, and dispatched post

MRP implementation. In preparing their proposals, Proponents will need to assume an operating profile for the purposes of estimating O&M costs and any sustaining CAPEX for their projects. If, post MRP implementation, the BESS is committed and dispatched more, which results in the facility operating more than anticipated, Proponents will incur increased costs without a mechanism for recovering costs. Such an outcome could occur if the BESS is located within an IESO determined transmission constrained location on the grid, where IESO determines the BESS is exercising economic withholding (even if the BESS is not doing so) for a prolonged period of time (e.g., over an entire month), and IESO resets the BESS' offer price lower (based on an established Reference Level) resulting in the BESS injecting energy onto the grid that then pushes its operational capabilities.

As an example of the impact a market rule change can have on a BESS, PJM redesigned the frequency regulation program rules[4] in 2017 to shift away from a balanced approach to the provision of regulation services from both generation and BESS to improve stability. This resulted in BESS providing more frequency regulation services than they had provided in the past. BESS were also used for longer operation periods. After implementing these changes, system performance began decreasing, which increased the energy flowing through BESS. Additionally, the increased hours of operation caused more energy to go through the system. The increased heat caused by the additional energy caused damage to BESS. The upshot of all this is that BESS have had to be replaced much earlier than had been planned[5].

Investment Tax Credit (ITC)

We believe that Subsection 2.16 Additional Sources of Government Support should exclude funding from the ITC so that Ontario ratepayers can obtain the full benefit of the ITC being reflected in lower Fixed Capacity Payments.

Contractual Flexibility

As we commented during the E-LT 1 RFP process, unlike previous contracts, there is little contractual flexibility for Suppliers in the draft Contract to respond to factors that are beyond their control. Given the fact that it is unclear that IESO has laid the groundwork for the needed distributors, transmitters, and approvals-granting ministry preparedness for the wave of development that is coming, we think that there needs to be flexibility built into the Contract to deal with factors that could not be priced prior to the Proposal Submission Deadline. We think it would be best to permit Suppliers to re-price their proposals in certain instances. For example, if the actual interconnection costs were to exceed what had been estimated in a Proposal, then there should be an opportunity to recover this cost increase. Similarly, contractual timeline and cost flexibility should be provided for delays in obtaining equipment or cost increases for equipment not accounted for adequately by the Materials Cost Index process.

[4] https://www.energy-storage.news/pjms-frequency-regulation-rule-changes-causing-significant-and-detrimental-harm/

[5] https://www.energy-storage.news/kore-power-replacing-batteries-at-eight-year-old-bess-project-in-pjm-market/

Early COD Payment Multiplier

We encourage IESO to retain Subsection 2.3 (b) that provides for an Early COD Payment Multiplier. We think this is the right kind of incentive to offer Suppliers to achieve Commercial Operation in a timely fashion.

Materials Cost Index Adjustment

We think that the introduction of the Materials Cost Index Adjustment (MCIA) in the E-LT 1 Contract was positively received by prospective Proponent and helped them manage price risk in the high inflationary environment we are currently experiencing. We do request, however, that you permit Proponents to determine the weighting factors for each index component (e.g., instead of weighting the lithium carbonate index by 0.25, ferrous and non-ferrous IPPI index by 0.45, and the CPI index by 0.3, allow a Proponent to select these weighting factors in its Proposal).

We further propose that MCIA have a "collar" such that IESO risk is capped at a certain pre-determined threshold value, but the Proponent can elect to proceed with the project even if the indexing is capped at that value. Conversely, if the index drops below a certain pre-determined threshold value, the Proponent can elect to abandon development and terminate the contract with the return of its Completion and Performance Security – similar to contract termination in Section 2.13(b) of the Contract. We propose that this be mutual and that IESO have the ability to abandon projects where the indexing would be above a certain threshold to protect ratepayers. The rationale for a collar is that an index is a lagging indicator and Supplier may have locked in a price that is higher than the index with an OEM supplier and a downward adjustment could make a project uneconomical. Conversely, IESO might want this flexibility in the event that the index gets above a certain level and where Suppliers have locked in at a lower price so that it can protect ratepayers.

We are in favour of continuing the option in the E-LT1 RFP to have Proponents either opt in, or opt out, of having their Fixed Capacity Price indexed.

Availability

We think the current Performance Event of Default clause is not realistically achievable (i.e., 75% over 24 months on a rolling average, given key component lead times). Instead, we suggest that the Supplier Event of Default be assessed over three consecutive Contract years instead of 24 months.

Roundtrip Efficiency

We believe that the RRE value of 0.75 is still too high relative to what the actual round-trip efficiency will be, which we think will be about 0.70. We are concerned this would result in a potential regulatory charge cost instead of a regulatory charge credit under Exhibit R of the Contract, and therefore we think the RRE needs to be no higher than 0.70.

Indigenous Participation

We are in favour of having an Indigenous participation adder to the Fixed Capacity Payment to encourage Indigenous participation. An adder is a more tangible and transparent signal to Indigenous communities of the value IESO places in such partnerships. We also believe that it would afford Proponents much more flexibility if they could evidence Indigenous participation through a letter of intent, instead of having an agreement in place, in a Proposal. It would be advantageous for ratepayers if a Proponent could reduce the percentage of Indigenous participation to zero at any time between the Proposal Submission Deadline and Commercial Operation insofar as the percentage is restored to what was stated in the Proposal once Commercial Operation is achieved. This will allow a Proponent to obtain the full benefit of the federal ITC, which will be passed on to ratepayers through a lower Fixed Capacity Payment.

We are also in favour of obtaining a type of "procurement roadmap" from IESO so that we can plan our participation in future IESO procurements. This will allow us to have sufficient resources to deploy.

Facility Amendment

We request that the language in Section 2.1(b) permitting a Supplier to relocate its Facility up to 2 km away from the location of the Facility at the time the contract was made, be reinstated. It was included in the May 26, 2023, version of the draft Contract but removed from the June 30, 2023 version of the draft Contract. We think that Suppliers will need this flexibility to conform to setback requirements. We further request that a Supplier be permitted to change its connection point in this regard provide that it does not invalidate the Deliverability Test results it had obtained for its Proposal.

Although not part of this procurement process, we would like to take the opportunity to acknowledge the steps taken by the government and IESO in the "Powering Ontario's Growth"[6] document released on July 10, 2023, to announce its intention to procure more wind and solar resources. We think that announcing the province's plans to acquire new supply like this helps create a stable investment climate and will serve to encourage further investment in Ontario. As we have stated in past submissions, the development of a procurement roadmap in consultation with renewable developers would provide further confidence to the developer community, which will help facilitate investment decisions.

[6] https://www.ontario.ca/page/powering-ontarios-growth

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The Consortium thanks IESO for on-going stakeholder engagement meetings regarding LT RFP 1 and other related stakeholder engagement meetings relating to supply procurements and resource adequacy.

We will be pleased to meet with IESO about this submission at a mutually convenient time.

Sincerely,

Jason Chee-Aloy
Managing Director
Power Advisory

cc:
Barbara Ellard (IESO)
Elio Gatto (Axium Infrastructure)
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Patrick Leitch (Capstone Infrastructure)
Jason Woods (Connor, Clark & Lunn)
Paul Rapp (Cordelio Power)
David Thornton (EDF Renewables)
Nathan Roscoe (EDP Renewables)
Lenin Vadlamudi (Enbridge)
Michelle Dueitt (ENGIE)
Julien Wu (Evolugen by Brookfield Renewable)
Stephen Somerville (H2O Power)
JJ Davis (Kruger Energy)
Deborah Langelaan (Liberty Power)
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