

MARCH 2024

Market Renewal Program Impact on Clean Energy Supply (CES) Contracts: Overview and Update

Presented to: CES contract counterparties
Presented by: IESO's Contract Management Team

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Purpose

1. To provide an overview of the impacts of MRP on CES contracts
2. To discuss the CES contract principles and the IESO's proposed approach related to market evolution
3. To discuss the IESO's proposed term sheet to address MRP through CES contracts

Note: This presentation does not apply to contracts for facilities that use fuels other than natural gas, contracts that do not have Imputed Production as part of their settlement calculations, or contracts in respect of any facility that does not participate in the IESO-Administered Markets.

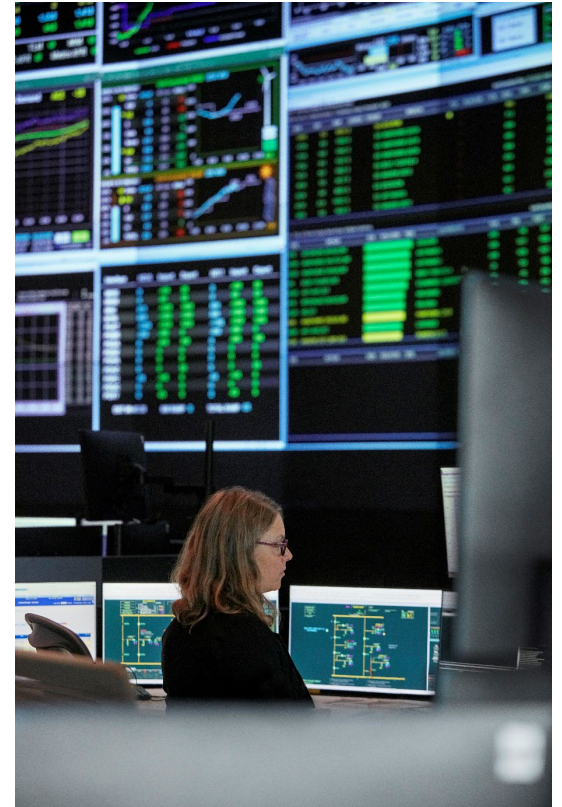
Agenda

Through this presentation the IESO plans to cover:

- MRP Background
- The IESO's Approach to Amending Contracts
- Summary of Engagement to Date
- Impact of MRP on CES Contracts
- CES Contract Market Evolution Principles
- Term Sheet – Proposed Amendments
- Next Steps

MRP Background

- MRP is on schedule to 'go live' in May 2025 with a new design of Ontario's wholesale electricity market.
- Provisionally approved amendments to the [Market Rules and Market Manuals](#) were published throughout 2023.
- MRP implementation resources such as training modules, webinar recordings, design documentation and implementation plans are available on the MRP webpage.
- Any questions related to MRP in general can be directed to customer.relations@ieso.ca



IESO's Approach to Amending Contracts for MRP

Principles



1. Contractual implications are addressed in a manner consistent with the terms of the applicable contracts to maximize consistency, administrative simplicity, and transparency by treating similar contracts in a similar manner.
2. Contract incentives should be aligned with market incentives to not impede efficient market operations and to benefit all parties.
3. Ensure timely contract amendments ahead of the MRP implementation date.

Supplier Engagement



The IESO's Contract Management team is engaging Suppliers in parallel with the MRP engagement to focus specifically on contractual implications. The IESO is proposing solutions to achieve the principle considerations for amending contracts and expects Suppliers to familiarize themselves with MRP in order to provide feedback.

In addition to written feedback and webinars, the IESO is open to smaller group meetings or individual meetings to collaboratively work through the process of finalizing amending agreements.

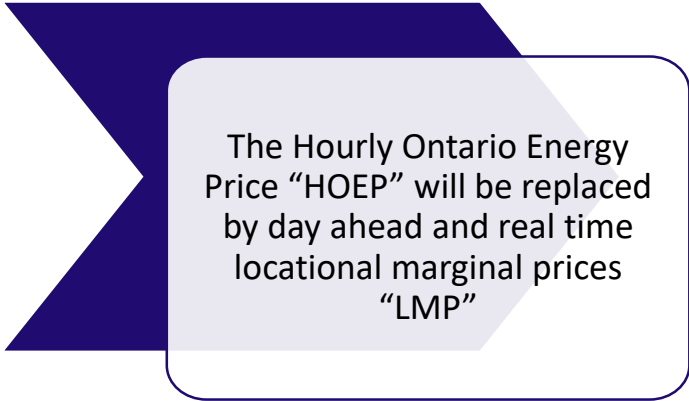
Summary of Engagement to Date

- Resources related to IESO's engagement with Market Participants on their contracts can be found on IESO's website including draft term sheets, feedback & responses, as well as webinar presentations

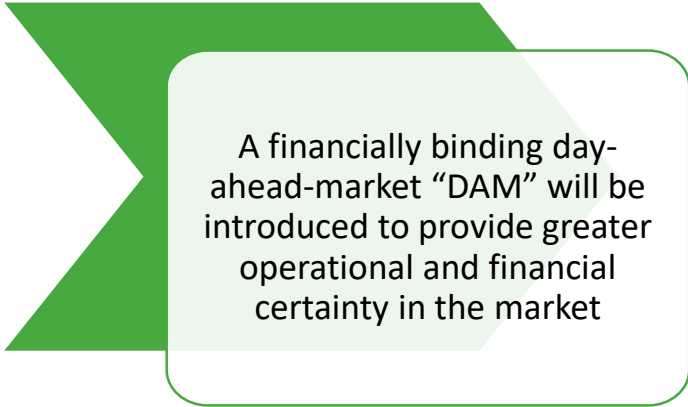


Impact of MRP on Market Participant Contracts

- Based on the changes introduced by MRP, the IESO has identified impacts on CES facilities that need to be addressed in IESO contracts with Market Participants, including:



The Hourly Ontario Energy Price “HOEP” will be replaced by day ahead and real time locational marginal prices “LMP”



A financially binding day-ahead-market “DAM” will be introduced to provide greater operational and financial certainty in the market



Discussion #1 – CES Contract Market Evolution Principles

CES Contract Principles

- In the case where a Day Ahead Energy Forward Market is opened, the CES contract sets out five principles that apply to the required amendments

Principles

A – In Exhibit J, all references to HOEP will be replaced with an hourly Electricity price established under the Day-Ahead Energy Forward Market (the “Replacement Price”). [s. 1.7(b)(i)]

B – In Exhibit J, all references to Imputed Start-Up Hour and Imputed Shut-Down Hour shall continue, but shall be modified by using information or prices made available under the Day-Ahead Energy Forward Market to deem an operating pattern... [s. 1.7(b)(ii)]

C – Start-Up Costs shall continue to be imputed for only one (1) Start-Up per day. [s. 1.7(c)(i)]

D – The Facility shall continue to be deemed to commence and cease operation based on an Imputed Start-Up Hour and Imputed Shut-Down Hour... [s. 1.7(c)(ii)]

E – Any amendments to accommodate the opening of the Day-Ahead Energy Forward Market shall be made on the basis that the economic effect of such amendments substantially reflect the Supplier’s economics as contemplated under the contract. [s. 1.7(c)(iii)]

CES Contract Approach

- Through previous discussions on the impact of MRP on CES contracts, the IESO proposed its approach to address these principles through a term sheet

Principles	Approach
A, C, D	These principles are specific to their application and have been directly applied in the development of a proposed term sheet.
B	This principle has been followed in the proposed term sheet by continuing to deem start-ups and shut-downs on the basis of rational price signals that maximize deemed operation during hours of positive INR and minimize deemed operation during hours of negative INR.
E	This principle has been followed in the proposed term sheet by preserving the overarching structure of Exhibit J and ensuring that the quality of the hedge provided by the Imputed Production model set out in Exhibit J is not impaired for a Facility with the attributes set out in Exhibit B.



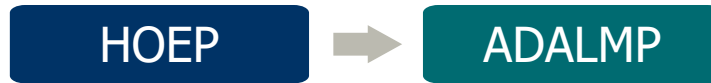
Discussion #2 – Proposed MRP Term Sheet

Term Sheet– Context

- The IESO has proposed an updated term sheet with changes only to reflect the provisionally approved market rule amendments in 2023
- Following past engagements on the impact of MRP on CES contracts, the IESO heard concerns with proposed term sheet, but did not receive any specific proposals or contract-based arguments for taking any different approaches
- Changes required for CES contracts should be limited to Exhibit J and in line with the principles in the contracts

Term Sheet – Proposed Amendments

- Add the new defined term for ADALMP
- Change all references from HOEP to ADALMP in Section 3.2 of Exhibit J (Calculation of Imputed Gross Energy Market Revenue) and Section 3.3.4 of Exhibit J (Calculation of Negative Interval Net Revenue Recapture)



Amendment (Day-Ahead Market)	
ADALMP	Applicable Day-Ahead Locational Marginal Price means, with respect to any hour, the locational marginal price for energy (in \$/MWh) at the delivery point that corresponds to the Facility's Connection Point in the day-ahead IESO-Administered Market for Electricity for that hour.

Note: For any Facility with multiple delivery points, the definition of ADALMP will be amended to reflect the capacity-weighted average of delivery-point LMPs.

Term Sheet – Proposed Amendments (Part 2)

- Amend the definitions of Deemed Start-Up Hour and Deemed Shut-Down Hour in Section 3.1 of Exhibit J

Deemed Start-Up Hour

A “Deemed Start-Up Hour” is the first hour of a Deemed Dispatch Interval, and is the first hour, other than a Directed Dispatch Hour, following a Deemed Shut-Down Hour in which the **ADALMP** was greater than or equal to the applicable Variable Energy Cost for that hour h.

Notwithstanding the foregoing, the requirement that the Deemed Start-Up Hour follow a Deemed Shut-Down Hour shall not apply to the first Deemed Start-Up Hour in the Term.

Deemed Shut-Down Hour

A “Deemed Shut-Down Hour” is the last hour in a Deemed Dispatch Interval, and is the first hour within a Deemed Dispatch Interval in which,

- (a) **ADALMP** was less than or equal to the applicable Variable Energy Cost for that hour h and for the previous hour h-1; or
- (b) **ADALMP** for hours h+1, h+2 and h+3 are all less than the applicable Variable Energy Cost; or
- (c) the following hour is a Directed Start-Up Hour.

Discussion and Next Steps

- The IESO would like to engage in a constructive discussion with CES counterparties in order to move forward to making appropriate amendments (individually, as a group, or sub-groups)
- Since 'go-live' is only a year away, IESO wants to ensure that sufficient time is allotted for contract drafting and various approvals for all parties
- The IESO is developing the market transition approach and will plan to engage Suppliers on contractual implications in the coming months, once further details are available

Thank You

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