



Market Renewal Program (MRP) - Comments received on IESO's Approach to Amending Market Participant Contracts publication

On April 12, 2019, the IESO published a document outlining its approach towards implementing contract amendments in support of the MRP, and requested comments and feedback. The IESO appreciates the comments and questions submitted by contract counterparties and other stakeholders. All feedback received has been noted and will be considered as the IESO moves forward in addressing the contract implications of MRP. Below, the IESO has provided a table that excerpts or summarizes and provides responses to certain specific feedback and questions received. This document is provided for information purposes only. It does not constitute, nor should it be construed to constitute, legal advice or a guarantee, offer, representation or warranty on behalf of the IESO. In the event of any conflict or inconsistency between the information contained in this document and the Market Rules, the Market Manuals, any IESO contract or any applicable legislation or regulation, the provisions of the Market Rules, Market Manuals, contract, legislation or regulation, as applicable, shall govern. This document is being provided without prejudice to any party's rights or remedies under any contract and does not constitute an amendment or waiver of any terms or conditions of any contract.

If there are additional questions, or if further clarity is required, please contact Contract Management via email at: mr.ContractManagement@ieso.ca.

To download a copy of the publication - IESO's Approach to Amending Market Participant Contracts, click [here](#).

No.	Contract type	Initiative	Comment	IESO Response
1	Hydro	SSM	Implementation of LMPs will 'unlock' more frequent and lower negative wholesale energy prices compared to HOEPs. Based on historic wholesale energy shadow prices averaged by the IESO's defined 10 transmission zones, negative prices have been much more prevalent in the northwest zone followed by the northeast zone when compared to all southern zones. Also, the vast majority of generation in northern Ontario comes from waterpower. Generators that face negative LMPs will earn less revenue from their contracts. This is due to either being dispatched less and/or being settled at negative market clearing prices.	The IESO continues to be open to understanding any analysis from those contracted facilities that believe their revenues or dispatches will be different from the present. However, the IESO has no reason to expect that market participant generators will be dispatched less (at an unchanged offer price), as current dispatch is based on a constrained schedule, which would be similar under the Single Schedule Market. Whether any facility may have lower negative prices is dependent on several parameters, including the node that the facility is connected to, specific contract parameters, whether the facility is a market participant, potential changes to the retail settlement code, and potentially other parameters.
2	Hydro	SSM	There is the issue of the elimination of Congestion Management Settlement Credits (CMSC) (specifically constrained-off payments) for dispatchable water resources, which needs to be addressed. Supplier's economics will need to be maintained so that value is not extracted from generators inadvertently by the IESO.	The IESO has not received any evidence from contracted dispatchable water resources to date that demonstrates that this concern would have any material impact. The IESO continues to be open to understanding any analysis from contracted facilities that feel otherwise, with due consideration for specific elements of their contracts.
3	Hydro	SSM	With respect to hydroelectric PPA contracts, energy payments are calculated as follows: "where HOEP is less than \$0/MWh, the Hourly Delivered Energy multiplied by the resultant of the Indexed Contract Price applicable during the corresponding calendar year multiplied by the Peak Performance Factor applicable during the corresponding hour, minus the absolute value of HOEP at that hour". These facilities could be disadvantaged by the introduction of LMP should instances and the degree of negative pricing be increased through MRP.	Please refer to the response for comment #1. In addition, for those contracted facilities that are settled under the OEB's retail settlement code, changes to the retail settlement code need to be known in order to determine how the introduction of the Single Schedule Market will impact those contracted facilities.
4	Hydro	DAM	Hydroelectric generators with interdependencies with other generators on the same river system are allowed to revise their offers after initial DACP results are released. This opportunity is offered to ensure that these generators can deliver on the schedules they receive. The DAM HLD abolishes this flexibility because the proposed two-settlement system makes this no longer feasible.	We note that the DAM High-Level Design states that the DAM seeks to mitigate the impact of the elimination of the resubmission window by modelling additional operating characteristics for all hydroelectric resources to increase the likelihood of hydroelectric resources receiving a feasible DAM schedule. The DAM design team is aware of these concerns and is working with the affected generators.
5	OEFC NUG Contracts	SSM	OEFC is the MMP for several NUG contracts and it receives/pays market revenue. More than half are located in northern Ontario and will be impacted by negative LMPs. It is suggested the IESO meet with the OEFC and affected stakeholders to discuss MRP implications on NUG contracts.	The IESO does not have access to the provisions of these OEFC contracts, but is open to participating in discussions with the OEFC and its counterparties.
6	Hydro	N/A	Most waterpower contracts have differentiated on and off-peak pricing to incent operations that provide the most value to the system. However, the peak hours defined in contracts are in many instances no longer reflective of system peaks. Without extracting value from the contracts, the IESO could work with proponents to make adjustments to peak hours.	Although not part of the scope of contract implications arising from the MRP, the IESO continues to be open to evaluating any mutually beneficial proposals.

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7	All	All	As was outlined in the Final Report of the Non-Emitting Resources Subcommittee, stakeholders have expressed concern about the potential gap in revenue streams as a result of the MRP. At the time the current contracts were negotiated, the OPA/IESO generally required that the Supplier transfer and assign to the Sponsor all rights, title, and interest in all Environmental Attributes regardless of whether the facility was newly constructed or not. Given the recognition of the expected revenue challenge for non-emitting resources under this new market construct, the planned amendment of contracts provides a unique opportunity to reconsider ownership of these attributes.	Although not part of the scope of contract implications arising from the MRP, the IESO continues to be open to evaluating any mutually beneficial proposals.
8	All	All	We do not disagree with the IESO's statement that many contracts on their face seem to address amending contracts in response to some of the changes planned within the MRP. These provisions were drafted years before the MRP was being considered by the IESO. While these provisions may be of assistance in providing general guidance, they ought not to be solely adhered to in order to arrive at a predetermined outcome for the contract amendments. We believe that there may also be a risk of unintended consequences unless a more flexible approach to these amendments is adopted by the IESO. For example, the Day-Ahead Energy Forward Market noted in many different contracts is different from the financially binding Day-Ahead Market contemplated by the IESO in MRP in combination with the Enhanced Real-Time Unit Commitment. We believe that a more flexible approach needs to be adopted by the IESO, with less rigid adherence to outdated contract provisions, in order to arrive at amendments that keep generators whole and avoid unintended adverse consequences.	The IESO recognizes that the concepts have evolved over time, but believes that the changes introduced by the MRP generally fall within the range of what is contemplated in the contracts and is therefore subject to the allocation of risks and rewards that was agreed at the time the contracts were entered into. That said, the IESO recognizes that certain situations may require some flexibility. The IESO will seek to address these situations in accordance with the principles that have been laid out in the document.
9	All	All	The document states as consideration #2 that market incentives should be aligned with contract incentives, and furthermore that "it is important to ensure that the contracts do not distort or undermine market incentives...". It is unclear what this means in terms of the contract amendments. Contracts provide a hedge against uncertain market prices for energy, and it is difficult to resolve how the hedge would remain intact, while at the same time contract amendments would be crafted so that a generator is exposed to wholesale market incentives. We would like to better understand what the IESO has in mind regarding the alignment of market incentives under the MRP and contract incentives. Could the IESO possibly share examples?	In this consideration, the IESO is noting that contract amendments should not create any unintended consequences where contract incentives would be at odds with market incentives. To the greatest extent possible, market participants should behave in the market in the same way whether they have a contract or not. An example of this is the proposed approach to address how renewables would be contractually settled in the DAM. The proposal continues to provide wind and solar contracted facilities that participate in the IAM with the same hedge, but also allows generators to make energy offers that may be different from IESO forecasts. Without this mechanism, the existing contracted incentive could potentially skew a market participant's behaviour away from participating in the DAM, which would be contrary to how that same participant would behave without a contract.
10	All	All	The document notes "the IESO intends to maintain allocation of risk and reward that has been established by the contracts to the greatest extent possible, including, where applicable, the impacts of market rule changes". It is unclear what this really means.	The statement refers to the notion that all contracts explicitly or implicitly assign risk/rewards to each of the parties to the contracts. Some of these allocations are expressly addressed in the contract, for example, in the clauses that stipulate the principles that apply if a DAM or LMP is implemented. The IESO is not looking to change the risk allocations provided for in the contracts, even if they may be impacted by changes to the market rules. Simply put, the IESO is not looking to change the overall allocation of risks and rewards of any contract.
11	Renewable	All	Not all IESO contracts with renewable generators are CfDs. These should be treated differently.	The IESO agrees that contract-specific considerations may apply, but notes that the fundamentals of contracts belonging to the same type are substantially the same.
12	Contracts that specifically reference CMSC	All	The document is silent about how wholesale market payments, such as CMSC (a component of a generators' economics) will be dealt with. This has been raised several times during meetings with the IESO with no acknowledgement by the IESO that this issue needs to be addressed in the contract amendments so that value is not extracted.	The IESO has not received any evidence to date that demonstrates that this concern would have any material impact. The IESO continues to be open to understanding any analysis from contracted facilities that feel otherwise, with due consideration for specific elements of their contracts.
13	All	SSM	Under the MRP, constrained zones will likely experience a higher frequency and lower negative LMPs compared to HOEP. Such negative LMPs can erode the hedge contracts provide. We believe that more analysis is needed to assess the impact on the power system, the IAM, and contracts from the implementation of LMP combined with the elimination of CMSC.	The IESO acknowledges the concern by some contract counterparties and would like to review any analysis that would show the anticipated impact. The IESO has not received any evidence to date that demonstrates that this concern would have any material impact. With respect to contracted facilities that are settled under the OEB's retail settlement code, changes to the retail settlement code need to be known in order to determine how the introduction of the Single Schedule Market will impact those contracted facilities.

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14	All	All	We believe the CM MRP schedule provided is not practical. Having amendments finalized before launching the MRP is too late. We believe that draft amendments need to be in place shortly after DD is completed.	The IESO is open to working with contract counterparties to agree on amendments at an earlier stage. It is the IESO's intention to have term sheets and draft amendments finalized well before the launch of the MRP; however, it may not be practical to actually execute amendments until the market rules have been finalized.
15	All	All	Preserving supplier economics as committed to in the Contract should be the fundamental principle of any amendments.	The IESO's primary objective is to ensure that any contractual implications are addressed in a manner consistent with the terms of the applicable contracts. The IESO has consistently stated that it is not an objective to extract value from the contracts. It is important to also recognize that not all changes related to MRP impact supplier economics as contemplated by the applicable contracts, even though they may positively or negatively impact a facility's revenues, costs, profits, risks, etc.
16	All	ICA	To allow for seamless transition, there should be flexibility to market participants to align contract end dates with the capacity market commitment period.	As the IESO evolves the Transitional Capacity Auction, we will further engage with stakeholders and consider this suggestion and will continue to be open to evaluating any mutually beneficial proposals to support an enduring capacity auction mechanism in Ontario.
17	All	All	Sufficient time should be allocated for negotiations.	The IESO agrees that sufficient time should be allocated to negotiations and will be working with the various counterparties to progress towards implementing any required contractual amendments in a timely manner.
18	All	SSM/DAM	Would it be the IESO's position that the LMP/DAM provisions for the contracts that have them should be applied to those contracts that do not as a starting point for amendments?	Generally, the IESO's view is that provisions in one contract should not be directly applied to another contract, which may reflect a different allocation of risk/reward. In addition, all MP contracts provide for the evolution of HOEP (whether through the implementation of LMP or otherwise). There may be unique instances in some contracts where specific solutions may need to be derived, but it does not necessarily mean that provisions from other contracts will be used.
19	All	All	If a MP believes that they have been exposed to more risk or less reward via changes the IESO is proposing, what will be the IESO's methodology to handle these disputes?	The IESO intends to address contractual implications in a manner consistent with the terms of the applicable contracts, through any necessary and appropriate contract amendments.
20	All	SSM/DAM	An issue that isn't explicitly stated is the associated risk with making amendments before the implementation of changes to the overall market design framework is that the contract holders will be assessing the impact based on an expectation of changes rather than after the fact analysis after the changes have been operationalized and there is actual data to input into the impacts. Does the IESO intend on executing the amendments before the implementation of the market rule changes or after?	It is the IESO's intent to have term sheets and draft amendments finalized well before the launch of the MRP, and to execute amendments after market rule changes are finalized and before MRP initiatives are in service. Although there are no plans to make further amendments to address actual experiences after MRP implementation, the IESO will take a reasonable approach to explore mutually beneficial changes.
21	All	ERUC	The IESO states that ERUC will not have contract implications. One that is overlooked is the effect that a MP's Start up Costs will have on being dispatched.	The IESO considers this as both a risk and an opportunity for each facility to manage.
22	CES	SSM	Can the IESO confirm whether localized natural gas costs will also be used to determine a participant's costs?	The IESO is not looking to change the gas price index stipulated in the contracts and therefore contracted gas generators will continue to bear the risk/reward of actual delivered gas prices relative to the index used in the contracts.
23	Contracts that specifically reference CMSC	SSM	Can the IESO provide further clarity on how Constrained Management Settlement Credits (CMSC) will be handled when LMP is in use for existing generation assets that would now potentially operate in a zone that is constrained. How will contract holders be made whole if constrained down due to localized congestion?	The SSM HLD provides that localized congestion will now be reflected in the LMP and dispatch will continue to be done on a constrained schedule. Therefore, generators should not be constrained down for localized congestion, but would instead respond to the LMP price signal.
24	All	DAM	With respect to the DAM impact on PPAs, the publication states that contract settlements will be amended to offset the economic impact of differences between day ahead forecasted quantity and real time delivered quantities. Can the IESO confirm who's "forecast" is contemplated here? Is this the participant's forecast or the IESO's?	It is the IESO's forecast that is contemplated in the publication.
25	All	All	Will the IESO conduct consultation/negotiations with individual contract holders or only with groups of counterparties with similar contracts? If the latter, how will the counterparties be categorized?	The IESO will utilize both individual and group discussions, depending on the stage of discussions, contract type and confidentiality provisions of certain contracts. The organization of the groups of contracts will be based on similarities of the contracts and may evolve as discussions progress.

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26	All	All	How will MPs be able to change registration parameters including MLP, MGBRT, MRT?	It is unclear how this question relates to contract implications arising from the MRP. General questions relating to market processes that may be affected by MRP design streams may be shared with the design teams.
27	FIT	DAM	The IESO has not stated consistently whether they will require FIT generators to offer in the DAM to establish an Availability Declaration Envelope for the next day.	The DAM HLD notes that current Availability Declaration Envelope (ADE) offer obligation would be retained as a transitional measure if contract incentives are not aligned with market incentives. The proposed approach to address how renewables would be contractually settled in the DAM should align the incentives.
28	All	DAM	The IESO has not stated convincingly why a Supplier would want to enter a forecast that was different from the IESO's. The IESO has previously stated that "Suppliers may be able to extract additional revenue by taking additional risk". In counterpoint, it can be stated that a Supplier can have the same outcome by becoming a virtual bidder and replicating the same risk/reward scenario.	It is up to each market participant to decide whether they would want to deviate from the IESO's forecast. The IESO agrees that similar outcomes could be achieved with virtual transactions.
29	OEFC NUG Contracts	DAM	Some NUG facilities have contracts between themselves and the OEFC. There may be unintended consequences to the OEFC because of the RT vs DAM balancing calculations.	The IESO does not have access to the provisions of these OEFC contracts, but expects that OEFC will be reviewing implications to their contracts.
30	Dx Contracts	SSM	The IESO has made a slightly misleading statement when it implies that distribution contracts will not be affected by the MRP but may be affected by changes to the OEB Retail Settlement Code. In fact, these contracts will still need amending. These contracts still make references to HOEP in their settlement calculations, which will be replaced by LMP.	The IESO agrees and did not intend to be misleading. For those contracted facilities that are settled under the OEB's retail settlement code, changes to the retail settlement code need to be known in order to determine how the introduction of the MRP will impact those contracted facilities.
31	NUGS	All	Many suppliers have revised NUG contracts. Each is unique and distinct from "CES style" or variable generation "FIT/RES style" contracts. They will require attention as well.	The IESO agrees with this comment.
32	All	ICA	The ICA is referenced repeatedly but does not refer to the TCA. Will contracted facilities be able to participate in the TCA? If so, will the IESO use "Qualified Capacity"?	As the IESO evolves the Transitional Capacity Auction (TCA), decisions related to potential participation from contracted resources will be determined for the second phase of the TCA.
33	All	ICA	Referencing "End of Term Obligations", the IESO proposes a reduction of contract term so that the final date of the term aligns with the start of an obligation period under the ICA. In addition, it is suggested that a limited extension of contract term so that the final date of the term aligns with the start of an obligation period under the ICA or TCA.	As the IESO evolves the Transitional Capacity Auction, we will further engage with stakeholders and consider this suggestion and will continue to be open to evaluating any mutually beneficial proposals to support an enduring capacity auction mechanism in Ontario.
34	CES	All	Noting 'Consideration #1', since the IESO did not acknowledge that a common feature of certain market participants' contracts may include the concept of Supplier's economics, it is believed that contract-specific elements, such as this, must be addressed on a contract-by-contract basis in order for each Supplier to be held whole to its economics, aligning with the IESO's stated position as to "not extract financial value" from contracts.	IESO acknowledges that certain matters may be specific to individual contracts and will need to be addressed as such. However, it is expected that the vast majority of changes will be consistent across similar contracts. The IESO also agrees that its statement that it is not an objective of the IESO to extract financial value from contracts is distinct from the contractual concept of Supplier's economics, which operates differently in different contracts.
35	All	All	While it is agreed that the concept that contracts should not impede efficient market outcomes, there are certain design elements, such as 3-part offers, the lack of a start-up price index and market power mitigation that may inhibit the contract holder from operating its facility in a manner that reduces or hedges its financial and contractual risk, as it is able to do so today. Consequently, amendment discussions will need to take these new market design obligations/risks that are being imposed on contract holders and ensure the principle of not "extracting financial value" is maintained. In general, the alignment of contract and market incentives is a very general and vague concept and more clarity is required on how this consideration will be given effect in any contract amendments.	The IESO looks forward to discussions regarding the specifics of the required amendments.
36	All	All	It is believed that draft contract amendments need to be in place prior to the implementation of market renewal, shortly after the completion of the MRP Detailed Design. The IESO and contract holders can have discussions in parallel with detailed design work to ensure sufficient time is made available to finalize contract amendments well in advance of market renewal's go-live date. Waiting until the implementation of market renewal to have amendments in place leaves generators with significant risk and uncertainty that will impact real-time and longer-term business decisions.	The IESO is open to working with contract counterparties to agree on amendments at an earlier stage. It is the IESO's intention to have term sheets and draft amendments finalized well before to the launch of the MRP; however, it may not be practical to actually execute amendments until the market rules have been finalized.

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37	All	DAM/SSM	As mentioned in Consideration #2, there are design elements being introduced such as, but not limited to, 3-part offers and market power mitigation that require more detailed thought than just mechanical swaps of contractual defined terms.	The IESO is open to understanding the concerns with these two matters.
38	CES	DAM/SSM	In addition to looking at market parameters to calculate Imputed Net Revenue ("INR"), the IESO should also consider changes in the Variable Energy Cost ("VEC") in order to maintain the principle of aligning contract and market incentives. For example, future locational marginal prices ("LMPs") will incorporate both losses and constraints; how will these two components be reflected in the calculation of VEC?	The IESO is interested in understanding this point better. We are unclear about how LMP would impact a generator's variable cost.
39	All	ICA	It is agreed that clarity must be provided on how the IESO will determine "incremental" capacity and that transition options will need to be defined to allow facilities to remain in the market economically if there is a gap or overlap between contract expiry and an ICA auction.	As the IESO evolves the Transitional Capacity Auction, we will further engage with contract counterparties and consider these matters as applicable to support an enduring capacity auction mechanism in Ontario.