

Feedback Form

Long-Term RFP – February 8, 2022

Feedback Provided by:

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Following the February 8th public webinar on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on a variety of elements to help further inform the draft RFP and Contract, including: potential revenue streams, contracting mechanisms, term length and forward period, ability of resources to meet mandatory requirements and rated criteria, as well as the general approach to the RFQ including the proposed method to evaluate finances and experience.

The referenced presentation can be found on the [Long-Term RFP webpage](#).

Please provide feedback by February 18, 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 and post responses on the webpage.

Thank you for your contribution.

Revenue Streams

Topic	Feedback
<p data-bbox="181 226 917 296">Please provide feedback on the revenue stream options that the IESO proposed.</p> <p data-bbox="181 331 917 401">Are there additional revenue streams that proponents see that can be monetized?</p>	<p data-bbox="917 226 1524 1547">The IESO is asking suppliers and financiers to invest in Ontario at a time when the sector is undergoing fundamental reforms, such as Market Renewal and the Clean Energy Credit market. Uncertainties associated with the design and impact of these reforms creates significant risk for investors. These uncertainties and risks – say over the reliability and bankability of future revenue streams – result in very real costs to investors and eventually consumers in the form of higher costs of equity and debt financing, among other costs. To the extent the IESO can mitigate these risks for investors, costs will go down. Some contract designs, such as the contract for difference structure, will serve to adequately de-risk investment and help reduce total costs. These contracts should be designed as “all-in” procurements, incenting suppliers to bid in the full costs of their projects, with the IESO to determining contract payments based on deemed/assumed revenues across the entire sweet of electricity and related products. Such a design reduces investment costs, maintains market signals, and prevents windfall outcomes. The New York State Energy and Development Authority (NYSERDA) recently adopted a similar contract structure after its original price adder contract design failed to meet the needs of investors and jeopardized New York’s clean electricity goals.</p>

Topic	Feedback
<p>Other jurisdictions have procured new-build resources under long-term agreements through a variety of contract types (power purchase agreements, capacity only contracts, capacity contracts with energy components, etc.). What lessons do stakeholders have from their experience with these other contracting mechanisms?</p>	<p>Supplier economics will change over the course of any long-term contract. Having a contract structure that naturally adjusts for change makes contracts more resilient and less reliant on regular amendments. An “all-in” contract for difference would be the gold-standard of such an approach. A contract that only accounts for one product, say capacity, while ignoring the evolution of other revenue streams may lead to total payments that are ultimately insufficient to maintain capacity or overly generous.</p> <p>Furthermore, the risk associated with non-contracted revenue streams is much higher in Ontario relative to other larger and more dynamic markets. With only a single buyer, the Ontario market simply doesn’t support a decoupled revenue approach without incurring significantly higher costs of capital.</p>

Topic	Feedback
<p>What opportunities do stakeholders see in the future to monetize environmental attributes ?</p>	<p>Loads are increasingly seeking opportunities to buy renewable power. Given Ontario's supply mix, it could be a leader in attracting investment from such loads. However, market design will be critical to realizing the benefits of this advantage. Including nuclear power as an eligible resource could dissuade investment from prospective loads, most of whom overwhelmingly prefer renewable power. If nuclear must be included in the program, including different classes of CECs would be helpful, so to allow loads to select the type of CEC that best suites their sustainability goals and budget. Finally, in terms of how such a program might impact the IESO procurements, generators are unlikely to consider CEC revenue in any commercial or financial model until the program rules are established and the program is operational. Before such time, generators are unlikely to pass along this value to ratepayers through the bidding process.</p>

Term Length and Forward Period

Topic	Feedback
<p>Please provide feedback on the options for additional term-length that the IESO proposed.</p>	<p>Northland understands that extending contract term lengths increases the risk of over procurement. Unlike at times in the past, the risk of over procurement is low, and is a factor within the IESO's/Government's sole control. On the supply side, the IESO has identified a need far greater than the 1,000+ MW it intends to procure in this initial RFP. Furthermore, the LT RFP will procure a base of resources, with the Medium-Term RFP and Capacity Auction regularly balancing supply for marginal resources. On the demand side, a stable approach to pricing carbon has created real momentum towards electrification, which will drive up demand for electricity. Given the above, the IESO could offer contract terms longer than 10 years, reap the benefits of de-risking investment as described earlier, while maintaining flexibility. The benefits of a longer contract term are greatest when suppliers face the most uncertainty; reduced contract terms could be revisited in subsequent Long-Term RFPs when the market has experience with Market Renewal and other reforms.</p>

<p>Do stakeholders feel that the options presented provide proponents with some certainty from an investment and/or financing perspective?</p>	<p>The cost of equity and debt financing will be greatly impacted by the contract term. Financiers in Ontario have no experience financing electricity projects with as little revenue certainty as 10 years, nor do they have experience financing projects that will participate in a yet-to-be-realized redesigned market. Uncertainty and risk are costly, and increased term length can serve to control those costs. Northland strongly encourages the IESO to consider term lengths exceeding 10 years, at least for this initial RFP. It will also be important to have the term lengths set in advance (not, for example, dependent on the COD date) in order to set the bid price accordingly.</p>
<p>What are some options for additional term that the IESO should consider?</p>	
<p>Are stakeholders aware of any resources (new-build and/or expansions to existing resources) that able to come into service as early as 2025?</p> <p>What challenges would resources face with being fully operational by 2025?</p> <p>Please provide any additional information that may help inform the IESO of potential projects and their development timelines, in order to help guide discussions around LT I RFP forward periods.</p>	<p>Given development opportunities have been extremely limited in Ontario in recent years, proponents are unlikely to be sitting on many late stage “shovel ready” development projects. With RFP awards expected in mid to late 2023, it will be a challenge for any project to be fully operational by 2025. The IESO should consider all avenues available to it to bring resources on to meet medium and long-term needs, including advancing proposals in its unsolicited proposal framework, as these projects will be much farther along in the development process.</p>

Mandatory Requirements and Rated Criteria

Topic	Feedback
<p>Please provide feedback on the mandatory requirements the IESO proposed.</p>	<p>Does the IESO expect that an intermittent renewable generator will require some form of storage to qualify under the 4-hour energy and full dispatchability requirements? While that may serve the IESO's capacity needs, are standalone intermittent renewable projects being barred from participation at a time when the IESO is studying a phase-out of emitting resources?</p> <p>How will the IESO assign a UCAP equivalent value for solar and wind generating facilities? What values is the IESO currently modelling for the UCAP equivalent for wind and solar generating facilities? Please explain whether the "UCAP" assigned value for these resources will be fixed for the contract period.</p> <p>Will new gas-fired projects be permitted to participate in the Long-Term RFP?</p>
<p>The IESO presented a number of technical characteristics that are desirable from a system value perspective, that may form rated criteria in LT I RFP.</p> <p>Please provide feedback on the characteristics proposed and their applicability as rated criteria.</p>	<p>The IESO may wish to add environmental attributes as a desirable characteristic. The IESO indicated its preference for projects located in the Southwest and East of Toronto, will projects from all zones of the province be considered?</p>

RFQ

Topic	Feedback
<p>Do stakeholders feel that the high level approach proposed for the RFQ satisfies the IESO's goal of ensuring that interested parties have the capability to undertake project development for the LT I RFP, while also enabling competition?</p>	

General Comments/Feedback