

Feedback Form

Long-Term RFP – June 9, 2022

Feedback Provided by:

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Following the June 9th public webinar on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on the additional procurement mechanisms, as well as on proposed revenue streams.

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

Please provide feedback by June 20, 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.

Additional Mechanisms: Overview and Linkages

Topic	Feedback
Please provide any feedback on the IESO's overview of the Additional Mechanisms (Expedited Process, Same-Technology Expansions, FCA) and the linkages between acquisition mechanism (e.g., Expedited Process and LT1 RFP, or LT1 RFP and LT2 RFP)	Projects that are unsuccessful in the Expedited RFP should be permitted to participate in the LT RFP. Proponents that qualify for LT RFP1 should automatically qualify for LT RFP2.

LT1 RFP and Expedited Process: Mandatory Requirements and Rated Criteria

Please provide any feedback on the Mandatory Requirements and Rated Criteria proposed for the LT1 RFP and Expedited Process.

The IESO has provided indicative rated criteria points to show the relative weighting of different options within a given criterion (location, for instance). Is it appropriate to compare rated criteria points across criterion? For instance, will being located in Toronto (3 points) have an equal evaluation weighting as having a duration of 8+ hours (also 3 points). Alternatively, will the evaluation include an additional weighting system where, for example, location is worth 10% of overall score, and duration only 5%, making being located in Toronto twice as important as having an 8+ hour duration?

The buckets that determine which rated criteria points a proponent receives should be meaningfully delineated. For instance, slide 36 indicates that participants receive 0 points for a facility that has a 4-hour duration of service, but 2 points for a facility that has a duration of service between 4 and 8 hours. This will no doubt lead to many projects bidding in a duration of 4 hours and 1 minute (or whatever the minimum unit is). The IESO should ensure that projects that are awarded meaningfully different points have meaningfully different characteristics.

It may be the case that the projects successful in the Expedited RFP (and Same-Tech Expansions) resolve some of the issues the rated criteria are looking to address. For instance, the rated criteria for the Expedited RFP incent projects located in the West; if that RFP results in significant new build in the West, it may be appropriate for the IESO to revisit the Location rated criteria for the LT RFP.

Can the IESO please elaborate on its proposed mechanism to ensure supplier diversity. Will this mechanism apply across a single procurement, or will it apply across procurements? For instance, say the mechanism is a limit on the amount of capacity awarded to a single proponent, would this apply only in the context of the Expedited RFP and LT RFP individually, or would it apply to total capacity awarded across those procurements?

LT1 RFP and Expedited Process: Proposed Contract Design

Please provide feedback on the proposed contract design for the LT1 RFP and Expedited Process. The IESO welcomes feedback on the proposed approach for qualifying capacity as well as the proposed Capacity Payment Adjustment Mechanism.

The IESO has provided too little guidance on how it would like proponents to qualify their project capacity. The IESO recommends that proponents base that qualification on UCAP documents and “additional information”. This can be particularly challenging in the case of hybrid resources, where the IESO has provided no UCAP guidance. In many cases, the “additional information” needed to properly assess risk of delivering less than qualified is not available. Terms of default and non-performance/non-delivery charges are not known at this time, and yet proponents are being asked to lock in their project capacity at the RFQ stage, at least for the Expedited RFP. Given this dearth of information, the IESO should – at a minimum – allow proponents the flexibility to adjust their project capacity after RFQ submission, but prior to completion of the Deliverability Assessment. This would seemingly have no impact on the integrity of the RFQ process.

The IESO has been responsive to stakeholder feedback with respect to the need for a hedge on uncertain market revenues. That said, the Capacity Payment Adjustment Mechanism proposed by the IESO is problematic.

Capacity payments are intended to address the “missing money” problem in which **net revenues** from the energy market are insufficient to recover the investment costs of new capacity. Only net revenues – profit – serve to recover these costs. The fundamental problem with the IESO’s proposed approach is that capacity payments are adjusted based on an index of energy market prices, which more accurately reflect gross revenues, as opposed to net revenues.

Consider the high-priced natural gas environment we currently inhabit; electricity prices may very well print at historically high prices, but only as a result of the increase in the marginal cost of gas-fired resources, which remain the market price setters. Yes, gross revenues increase, but net revenues do not. This is the reason existing CES- and CHP-style contracts utilize a deemed profit structure.

Under the IESO's proposed framework, these resources would be making little to no additional net revenues, but their capacity payment would be reduced because their gross revenue appears higher. This dynamic is true for all non-zero marginal cost resources, including those with opportunity costs, such as storage and hydro. Bidding in a non-zero adjustment factor to the RFP serves to increase risk to these projects, not reduce it.

The proposed hedge structure only benefits zero marginal cost resources such as wind and solar (or those with stable marginal costs, such as run-of-river hydro), which the IESO has effectively regulated out of the Expedited and LT RFPs through the 4-hour duration requirement.

On its June 9 stakeholder engagement call, the IESO suggested that resources could in effect decline the hedge by bidding an adjustment factor of 0%. This begs the question, if the hedge doesn't work for resources with a dynamic marginal or opportunity cost, and zero marginal cost resources are effectively prohibited from participating, who is the hedge for? The structure proposed by the IESO serves to complicate the bid and award process, while providing little to no actual hedge value.

The IESO's proposal faces further challenges due to its all-or-nothing design; a cent above the upper threshold and lower contract payments are triggered, a cent below and they're not. This is particularly problematic considering the IESO's impact and control over the market clearing price of energy. Deliberate interventions (such as the out-of-merit use of Lennox), and inadvertent mistakes by the IESO have a material impact on price.

For instance, there was an 11-month period in which the IESO was erroneously double counting demand from demand response resources (Chapter 3, Section 2.1: <https://www.oeb.ca/sites/default/files/mssp-monitoring-report-20191219.pdf>). The Market Surveillance Panel estimated that this error caused market prices to increase by an average of \$4.50/MWh over the 11

months in question. Now suppose the IESO's proposed hedge structure were in place during this period, and the high price threshold was surpassed by something less than \$4.50/MWh, resulting in proponents receiving reduced capacity payments. Months or years later, the double counting demand issue is discovered, would the IESO resettle historic contract payments? As the contract counterparty, the IESO not only has significant control over the market price, but on whether its own errors should trigger a resettlement. This seems inappropriate.

On its June 9 call, the IESO reassured stakeholders that the risk of IESO price intervention and errors exists with current contracts. While that's true, these contracts are not all-or-nothing hedges, they're closer to a 1-to-1 hedge. For instance, if the IESO decides to bring on Lennox for reliability reasons and suppresses the energy market price by \$3/MWh as a result, FIT contract holders are indifferent as their contract revenues increase by a corresponding \$3/MWh.

For the aforementioned reasons, a contract with no hedge would be preferable to the hedge proposed by the IESO. Better yet, the IESO should continue to work with stakeholders to design a hedge product that works for everyone.

Additionally, the contract should be designed such that the IESO shares inflationary risk with the developer – at least between contract award and COD. In jurisdictions where developers bear the entirety of this risk, such as New York, projects that were bid as little as a year ago are now financially unviable because the cost of all inputs has risen precipitously, making contracted rates insufficient. If forthcoming projects in Ontario were to face similar circumstances, it could cause serious project delays or cancellations.

Given the uncertainty around future inflation, contract payments should be indexed to inflation. Absent this hedge, proponents will need to bake this risk into their initial bid price, increasing overall costs.

LT1 RFP and Expedited Process: Proposed Term Lengths

Topic	Feedback
<p>Please provide any feedback on the term length considerations proposed in addition to the incentive mechanism for the Expedited Process.</p>	<p>The IESO has done well to recognize that Ontario is competing for global capital and resources at a time of considerable uncertainty (supply chain disruptions, Market Renewal, etc.). It's encouraging that the IESO has listened to stakeholders and made meaningful change to contract term lengths.</p> <p>On slide 30 the IESO states that, "in order to ensure commercial operation is achieved by required deadlines (2025, 2027), the IESO will apply liquidated damages and potentially draw upon proposal security in instances of delay that will be outlined in the contract." This suggests that the IESO will apply liquidated damages to projects awarded contracts through the Expedited RFP if those projects fail to reach COD by May 1, 2025. However, on slide 54 the IESO proposes that projects awarded through the Expedited RFP will receive an incentive payment for every month they're operational between May 1, 2025 and April 30 2026. Does the IESO also intend to apply liquidated damages to projects that reach COD between those dates? Having an overlapping penalty and incentive is unnecessary. Northland supports the use of contract multipliers and encourages the IESO not to seek liquidated damages during this period; incentives that promote project economics will be more successful than penalties that endanger them.</p>

Deliverability Assessment

Topic	Feedback
<p>Please provide feedback on the IESO’s proposed process for deliverability testing and timelines.</p>	<p>If the IESO deems a project to be “Not Deliverable”, it should provide feedback on the project size that would make the resource deliverable. This information would help proponents right-size their projects and ensure the IESO gets a robust pool of deliverable projects competing. At the end of the day, this information is no different than the information on the available capacity at preferred connection locations west of Chatham the IESO intends to provide at a later date.</p> <p>The IESO should include all “preferred connection locations” across the province in its June document, not just those west of Chatham.</p> <p>Projects deemed “Not Deliverable” in the Deliverability Assessment for the Expedited RFP should be permitted to modify their projects for the purposes of submitting them for the Deliverability Assessment associated with the LT RFP.</p>

Additional Acquisition Mechanisms: Same Technology Expansions

Topic	Feedback
<p>Are the descriptions of the different kinds of upgrades/expansions clear and reflective of the options?</p>	<p>The categories identified by the IESO seem appropriate.</p> <p>For upgrades that don't fundamentally alter the operating style of the facility, revising existing contracts is possible as the ongoing operating style will continue to match the contract structure.</p> <p>For expansions, such as adding a peaker unit to the site of an existing CCGT, revising the contract of the CCGT may not work as the operating style of the new peaker may not match the existing contract structure of the CCGT. Expansions of this nature will need to be metered and operated separately, as well as contracted separately.</p> <p>It would be most cost effective to have upgrades and expansions compete to serve the same need (as opposed to competing in two separate procurement mechanisms). However, the challenge will be for the IESO to compare upgrades and expansions on an apples-to-apples basis considering the potential for different contract structures and obligations. Ultimately this may necessitate two separate procurement mechanisms.</p>
<p>What are the interdependencies between the existing contract, any upgrades and on-site expansions that need to be considered?</p>	<p>On slide 83 the IESO presents options for how it may allow upgrade proponents to bid contract revisions. Both cost and term are reasonable terms to bid along; however, the assessment of competing projects will be tricky. In the case of gas-fired resources, each facility has a different contracted heat-rate, start-up cost, etc. These contract terms greatly impact the expected payments under the contract. Accordingly, when assessing competing upgrades, the IESO cannot simply choose the option with lowest absolute price, it must consider other contracted operating parameters to arrive at the lowest expected payments under the contract. This will be challenging and require the IESO to take a forward view on energy prices.</p>
<p>Are any interdependencies missing/not fully captured?</p>	

What are the considerations for participating in the Expedited Process or LT1 RFP?

The IESO intends to have Same-Technology Expansions participate in the same Deliverability Assessment as the Expedited RFP. Does the IESO intend to assess projects from both procurements against one another? How will the IESO establish priority amongst projects deemed to be "Deliverable but Competing" considering the "competing" portion is intended to occur during the RFP stage which Same Technology Expansions won't be participating in.

The IESO should only assess the deliverability of Same-Technology Expansions against competing Same-Technology Expansions. These projects should be given priority over any Expedited RFP project competing for interconnection due to the relative certainty that an expansion can deliver on the May 2025 COD deadline. This will help ensure the IESO is allocating interconnection to the projects that it can most confidently rely on.

With respect to the question of whether Same Technology Expansions should be participating in the Expedited and LT RFP, the IESO should proceed with the separate procurement mechanism as planned.

Upgrades and expansions will be the most reliable option for meeting the 2025 capacity need, and thus their procurement should not be delayed to the LT RFP with 2027 deliverability.

Furthermore, as outlined in the answer to a previous question, the contract design proposed for the Expedited and LT RFPs is not conducive to a resource with a dynamic marginal cost, such as gas.

Furthermore, the contract term offered to an upgrade or expansion needs to match the contract term of the existing asset as those facilities will share land, staff, BOP costs, etc. In the case of existing gas resources, many are scheduled to come off contract around 2030, whereas contracts awarded through either the Expedited or LT RFPs will expire in 2047. The IESO would need to extend the term on existing contracts out to 2047,

Topic	Feedback
	something that seems imprudent for gas resources in particular.
What other key considerations/risks need to be included to help ensure this initiative is successful?	

Additional Acquisition Mechanisms: Forward Capacity Auction

Topic	Feedback
<p>Is expanding eligibility to variable generation, self-scheduling and co-located hybrid facilities in the FCA and ACA a priority for stakeholders?</p> <p>(Refer to slide 99)</p>	
<p>Any feedback and suggestions on how the performance assessment framework may need to be modified to reflect the design differences?</p> <p>(Refer to slide 106)</p>	
<p>Any feedback on potential features that could be considered for the design of the FCA?</p> <p>(Refer to slide 108)</p>	
<p>Is expanding eligibility to variable generation, self-scheduling and co-located hybrid facilities in the FCA and ACA a priority for stakeholders?</p>	
<p>Any feedback and suggestions on how the performance assessment framework may need to be modified to reflect FCA design differences?</p>	

Topic	Feedback
What other design features should be considered to increase the attractiveness of a Forward Capacity Auction as part of IESO's suite of acquisition mechanisms? (Refer to slide 110)	

General Comments/Feedback