

Feedback Form

Gas Phase-Out Impact Assessment – May 27, 2021

Feedback Provided by:

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To promote transparency, feedback submitted will be posted on the Gas Phase-Out Impact Assessment webpage unless otherwise requested by the sender.

Please provide feedback by June 17, 2021 to engagement@ieso.ca. Please use subject:

Feedback - Gas Phase-Out Impact Assessment

Questions

Topic	Feedback
<p>Are there additional considerations the IESO has not identified in defining the scope of the assessment to examine the reliability, operability, timing, cost and wholesale market implications of reduced emissions on the electricity system?</p>	<p><i>The question of whether gas-fired generation should be phased out is fundamentally a policy issue and should be determined by government.</i> Capital Power believes the question of whether any technology should be phased out is fundamentally a policy issue for government. If the IESO continues with its Gas Phase-Out Impact Assessment, the IESO's study should focus exclusively on system needs, technology attributes, reliability impacts, and cost estimates of continuing to leverage the existing natural gas-fired fleet. See further general comments below.</p> <p><i>Comparative carbon abatement cost analysis is required to accurately assess cost-effectiveness of policies aimed at reducing emissions.</i> Under any scenario considered, commodity pricing assumptions will need to incorporate explicit carbon policy and pricing assumptions. Capital Power submits that any carbon policy assumptions be based on known government policy, and further discourages the IESO from developing policy scenarios not being proposed by government. Under any scenario considered, Capital Power urges the IESO to (i) consider whether the combined impact of commodity and carbon pricing will incentivize carbon abatement technologies and (ii) assess the impact on projected emissions arising from investment in carbon abatement technologies. Under each scenario, known carbon pricing policy should inform the analysis.</p> <p><i>Cost of terminating contracts.</i> While Capital Power disagrees that natural gas-fired generation facilities should be phased out before the end of their useful economic lives, the cost of terminating existing agreements must be considered as part of the IESO's analysis. The IESO states that "absent a contractual termination right, it is difficult to estimate the costs of early termination of a contract."¹ Capital Power notes that in 2019, pursuant to Ministerial</p>

¹ IESO Gas Phase-Out Impact Assessment, May 27th, 2021, slide 17. Available at <https://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/Gas-Phase-Out-Impact-Assessment>

Topic	Feedback
	<p>Directive, the IESO hired Charles River Associates to assess the costs of buy-outs under the various supply contracts. Accordingly, Capital Power suggests the IESO consider whether this analysis may be reviewed to assist in estimating certain elements contributing to the total costs of any hypothetical contract termination.</p> <p><i>Impacts to wholesale market design and benefits accruing to ratepayers from Market Renewal.</i> Since 2017 the IESO has focused its resources on establishing a renewed market design for Ontario which assumes >\$0 MWh marginal cost resources continue to offer energy into the energy market at prices reflective of short-run marginal costs. The phase-out of natural gas fired generation will necessitate a re-assessment of whether the design proposed under the Market Renewal Program will continue to be suitable for Ontario. Accordingly, as part of its assessment of impacts arising from a gas phase-out, the IESO should also consider impacts to the planned market redesign, value of continued implementation, and any impact to the benefits quantified and assumed to accrue to ratepayers under the Market Renewal Program.</p>

General Comments/Feedback

Capital Power appreciates the opportunity to provide comments and feedback on the IESO’s proposal to study the cost, reliability, operability and market structure implications of phasing out natural gas-fired generation. Capital Power also respectfully submits that the question of whether natural gas-fired generation should be phased-out is fundamentally a policy matter, and that any policy decision regarding the role of natural gas-fired generation should be led by the Ministry of Energy, Northern Development and Mines. During a period of profound change in our energy and electricity sectors, the policy implications and considerations associated with the phase out of any source of generation are complex and necessarily have implications for costs and benefits ultimately socialized either through the rate base, or as more recently seen, through the tax base. The broad range of policy considerations for the phase out of natural gas-fired generation extends from the need to assess the cost of terminating contracts (entered into for the purpose of reducing carbon emissions) to the need

to assess the capability of the Ontario grid (without natural-gas fired generation) to support mass electrification.

Prematurely eliminating an affordable and reliable source of generation that has the capability to materially contribute to cross-sector decarbonization efforts, and can itself be decarbonized through incremental investment (i.e. carbon capture storage and utilization, hydrogen blending, etc.) may actually hinder progress towards the goal of net-zero emissions by 2050. The nature of these considerations requires input and direct guidance from government. For this reason, Capital Power supports a narrow and precise focus for the IESO's study, as has been proposed by APPrO, and submits that the Gas Phase-Out Impact Assessment should exclusively focus on system needs, technology attributes, reliability impacts and cost estimates of continuing to leverage the existing natural gas-fired fleet. If the phase-out of the natural-gas fired fleet will require reliance on unproven technologies - or technologies unproven at scale - the reliability, operability and cost risks must be quantified.

Critically, under any scenario, the analysis must assess the cost of the incremental investments in the system associated with the level of emissions reductions achieved. This comparative analysis is necessary to determine the cost-effectiveness of investment needed under individual scenarios, relative to available and emerging technologies. Without this analysis the IESO risks painting an incomplete picture of the significant benefits the existing natural gas fleet is readily capable of bringing to Ontario's grid, Ontario ratepayers, and Ontario's goals of broad cross-sector decarbonization.