

# Feedback Form

## Long-Term 2 (LT2) RFP – February 15, 2024

### Feedback Provided by:

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To promote transparency, feedback submitted will be posted on the Long-Term RFP engagement page unless otherwise requested by the sender. If you wish to provide confidential feedback, please mark "Confidential".

Following the LT2 RFP February 1, 2024, engagement webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on specific items discussed during the webinar. The webinar presentation and recording can be accessed from the [engagement web page](#).

**Please submit feedback to [engagement@ieso.ca](mailto:engagement@ieso.ca) by February 15, 2024.**

## Revenue Model

Topic	Feedback
<p>Do you have any additional comments regarding the revenue model, particularly with regards to the following: Deeming energy market revenues based on real-time locational marginal prices (LMP), as opposed to the IESO's recommendation of basing this on the day-ahead LMP. (Slides 19-21)</p> <ul style="list-style-type: none"><li>• The optionality of using either a simple average day-ahead price or weighted average LMP, with the latter including hours where the resource was scheduled day-ahead in a given month. (Slides 22-23)</li><li>• Including monthly production factors that on average equate to the annual production factor, in order to further account for seasonality. (Slides 24-26)</li></ul>	<p>CanREA and many of its members continue to have significant concerns with the proposed revenue model. Please refer to the 'General Comments / Feedback' section below for CanREA's position statement regarding the proposed revenue model.</p> <p>In response to the IESO's specific feedback questions: CanREA believes that risk should be borne by the entity best able to manage and control it. We believe the proposed revenue model can address economic curtailment risk if the design evolves to move away from simple average prices.</p> <p>To help reduce day ahead to real-time risk, CanREA submits that deemed energy market revenues should be based on real-time locational marginal prices. Additional design changes might be required to not disincentivize a facility from participating in the day-ahead market.</p> <p>To help reduce shape risk, CanREA submits that a weighted average locational marginal price based upon what a facility was forecasted to produce close to real-time, prior to any curtailment, would be a better design choice.</p> <p>To help reduce volume risk, CanREA submits that more granular production factors, such as monthly, would be a better design choice.</p> <p>CanREA notes however that the above modifications, and any other modifications, will likely add to the complexity of the proposed revenue model. There are certain to be operational and market circumstances that will result in additional, currently unforeseen risks which would need to be addressed. This approach is already complex, with many companies not yet understanding it, with unknown feedback from lenders, which overall leads us to recommend moving away from this model for LT2. Please refer to the 'General Comments / Feedback' section below for CanREA's position statement regarding the proposed revenue model.</p>

## DERs

Topic	Feedback
Do you have any comments regarding eligibility requirements for DERs of other general comments?	<p>CanREA would like to restate its comments submitted to the IESO on January 15, 2024.</p> <p>DERs will be an increasingly important part of the resource mix going forward. We support frameworks and approaches that seek to maximize their participation.</p> <p>The LT2 RFP should allow aggregation of DERs.</p>

## Capacity Resources

Topic	Feedback
Do you have any comments regarding considerations for acquiring additional capacity resources, and utilizing a multi-stream approach (energy and capacity streams)?	<p>CanREA would like to restate some of its comments submitted to the IESO on January 15, 2024.</p> <p>We have concerns and would like to seek clarity on how IESO would prioritize and cross evaluate submitted proposals should different contract styles be offered. In addition, CanREA seeks clarity on whether IESO intends to procure capacity through the LT2 RFP and, if so, whether/how IESO might retain capacity rights under the various proposed contract styles.</p> <p>It would also be helpful for the IESO to provide further clarity on its level of interest in procuring hybrid resources (i.e. wind + storage; solar + storage) in LT2 and whether it anticipates running a separate procurement focused on these types of resources.</p> <p>CanREA would like to see hybrids explicitly included as an eligible resource and evaluated on a level playing field with other non-emitting energy and capacity resources.</p>

## LT2 Deliverability

Topic	Feedback
Do you have any comments on early deliverability data and evaluation stage deliverability?	<p>CanREA would like to restate some of its comments submitted to the IESO on January 15, 2024.</p> <p>Should the proposed revenue model continue to be considered, the IESO needs to provide accurate, useful and durable deliverability data to the sector by <b>March 2024</b>. This critical information affects proponents' ability to select viable sites, evaluate risks and forecast project economics.</p> <p>This data should include:</p> <ul style="list-style-type: none"><li>• Specific forecasts of time and frequency of congestion, including 20-year regional price forecasts, expected hourly curtailment data and potential zonal / regional / subregional curtailment limits or ranges. TAT / DAT tables within each zone or region would also be very helpful.</li><li>• An Ontario map including any red 'no go' areas and/or green prioritized areas by March 2024. This will allow proponents to begin project development work in time for the bid schedule. Other jurisdictions, including Alberta and Quebec, have taken this approach.</li></ul>

## Repowering

Topic	Feedback
Do you have any comments around repowering participation?	<p>In the IESO's publicly posted response to January 15, 2024 stakeholder feedback, the IESO provided a helpful description of repowering under LT2:</p> <p><i>Repowering refers to an existing non-emitting electricity generation facility that was previously the subject of a contract with the IESO, undertaking the necessary capital investment, such that the facility can continue to operate and provide energy for the entire duration of the LT2 contract term. The IESO is proposing that the repowered facility would be subject to the same performance obligations (yet to be determined) under the LT2 contract as a new-build facility.</i></p>

CanREA supports the IESO’s description and proposal above. Furthermore, we submit that repowering eligibility should not be based on pre-determined mandatory increases in capacity or energy. We also submit that repowering eligibility should not be based on pre-determined levels of investment. Repowering eligibility should simply be based on meeting all performance obligations under the LT2 contract for the duration of the term. With proper default provisions, facility owners will take contract requirements seriously and will undertake necessary capital investment accordingly.

## Long Lead-Time Resources

Topic	Feedback
Do you have any comments on enabling long-lead time resources?	No comments

## General Comments/Feedback

### Revenue Model – CanREA Position Statement

CanREA and many of its members continue to have significant concerns with the proposed revenue model.

CanREA represents more than 300 Canadian and international renewable energy developers, asset owners, operators, and lenders. We deeply understand the procurement environment in many jurisdictions across Canada, the United States, and in numerous jurisdictions around the world. We understand electricity markets, different approaches to procurement, and what works best to attract capital and therefore build competitive, least-cost projects in the interest of ratepayers.

Many individuals in CanREA’s membership base are Ontario ratepayers and understand the need to deliver least-cost proven resources needed in the near-term in Ontario, in a manner acceptable to communities and ratepayers.

Our members are ready, willing, and able to deliver least-cost clean energy and storage projects in Ontario, competitive with project pricing in other jurisdictions. Federal Investment Tax Credits and other regulatory developments will help with this cost-competitiveness.

Our concerns are that overly complex, untested formulas and risks in revenue models increase practical delivery and operating risk, legal interpretation risk and financial risk, all of which are causing serious pause as to whether these contracts will be financeable, and if financeable what premium financing costs will be imposed.

Many of our members believe we can bid and deliver low-cost projects for Ontario ratepayers if the IESO moves ahead with a more tested and familiar PPA approach for LT2, which we believe is in the best interest of all Ontarians. Now is not the time to experiment with less tested, higher risk approaches.

We have engaged extensively in understanding the E-PPA revenue model proposed by the IESO for the LT2 and subsequent procurements of energy in Ontario from non-emitting resources. We have attended IESO presentations (Dec 1 Ontario Summit, Dec 13 and Feb 1 webinars), conducted numerous one-to-one conversations with the IESO, and modelled and assessed potential E-PPA outcomes under a variety of market conditions.

We find that the proposed E-PPA revenue model contains several design flaws that place risk on developers that they are not able to control – namely Day Ahead to Real-time risk, shape risk and possibly curtailment risk under some circumstances.

The IESO has offered to work with developers to resolve their remaining concerns. However, even if we can alter the E-PPA revenue model to reduce the impact of these flaws, we are not confident that it is the best approach for ratepayers. The proposed E-PPA revenue model is complicated and difficult to understand, even for electricity experts with extensive market experience, and further needed changes will likely increase complexity. Given that this model is untested in Ontario, and with Market Renewal set to deliver in Q2 2025, several unseen negative market and contract interactions are likely to arise that will require further changes. We need to land the energy procurement revenue model in a timely manner so that proponents can confidently begin to invest in project development.

It is also going to be very challenging to explain this model to lenders. If lenders don't understand the model and risks, projects won't get financed or it will be very expensive to do so. As a result, the hard-to-assess risks inherent in the E-PPA revenue model will likely result in fewer bids, higher project costs and increased likelihood that selected projects will not get built (see NYSEERDA's recent Tier 1 significant contract attrition as a relevant case study). For a first renewable energy procurement in about a decade – at this critical time in Ontario's energy transition – this would not be a good outcome for anyone. We need this procurement to be successful to provide confidence for future procurements and support IESO's resource adequacy framework. Renewables and energy storage are clean, low-cost, reliable, flexible and quick to deploy – they are uniquely positioned to support Ontario's growing energy needs in this procurement and future procurements.

In contrast to the E-PPA revenue model, Ontario has extensive experience with other revenue models, such as a fixed price PPA. These approaches are simple, investable and allow relevant parties to take on appropriate risks. We are confident that this style of revenue model will lead to increased participation and lower prices – resulting in an Ontario success story that will set the stage for future procurements.

## **General Comments / Feedback**

CanREA submits that there is a need for clear government and IESO processes for clean energy development in Northern Ontario, including access to Crown Land and transmission, and clarification of any related rated criteria points or incentives.

CanREA submits that the IESO and government need to play a more significant role in supporting effective municipal engagement to enable near-term energy development in support of grid reliability. We are seeking government and IESO support to provide a clear and consistent narrative to municipalities, Indigenous communities and other key stakeholders regarding the critical need for new resources in support of the energy transition and grid reliability for Ontario.

Regarding agricultural land use, CanREA submits that LT2 and future IESO procurements should not impose additional restrictions on agricultural land use. This would limit site availability in high wind areas and may drive up prices. The Provincial Policy Statement outlines land-use rules for energy development that municipalities must uphold. Energy development and land-use decisions are most appropriately addressed through local municipal planning decision-making processes.