

Feedback Form

Long-Term 2 (LT2) RFP – April 4, 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 April 4, 2024, engagement webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the 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 by April 23, 2024.

Enhanced Power Purchase Agreement (E-PPA) Revenue Model: Proposed Modifications

Topic	Feedback
<p>Do you have any comments regarding use of monthly production factors for the calculation of deemed energy revenues?</p>	<p>Capital Power thanks the IESO for their continued engagement on the LT-2 RFP design and remains encouraged by the IESO's recognition of stakeholder concerns related to the deemed energy revenue model.</p> <p>As mentioned in our February submission, the overall workability of the model will depend on proponents having a reasonable opportunity to meet their contractual deemed energy revenue through participation in the IESO Administered Markets (IAMs) and to be able to effectively mitigate contractual risks, either through operation or participation within the markets.</p> <p>With the above in mind, Capital Power is supportive of using a monthly production factor for the calculation of deemed energy revenues. The use of monthly production factors is in line with the recommendation we provided in February and will provide an opportunity to have a more realistic production profile when calculating deemed revenue. Proponents can control or mitigate risks through their submitted production factors and will remain financially incented to meet or exceed their contracted production, subject to market needs and other E-PPA contractual provisions.</p> <p>Other provisions that account for performance degradation near the end of an asset's useful life should also be considered within the E-PPA.</p>

Topic	Feedback
<p>Do you have any comments regarding use of the Forecasted Weighted Average Price (FWAP)?</p>	<p>Capital Power is not opposed to a FWAP for the calculation of deemed energy revenue. For the reasons stated in the <i>General Comments and Feedback Section</i>, Capital Power believes real-time prices should be used rather than day-ahead prices. As such, Capital Power recommends that a forecast as near to real-time as possible be used, rather than the day-ahead forecast as recommended by the IESO.</p> <p>Capital Power does request the IESO provide details related to their forecast, including the forecast methodology, key meteorological data points, and how asset specific forecasts are derived from their centralized forecasting tool. This information would be helpful in determining the appropriateness of using FWAP for the deemed energy revenue calculation.</p> <p>Capital Power also requests the IESO commit to a framework that continuously improves and updates their centralized forecast as new data and processes comes available. Changes should be transparent, communicated to market participants, and follow a due diligence process that involves stakeholders as it has the potential to impact their earnings. Such a commitment from the IESO will provide proponents a level of assurance that good industry practices are being used in the development of forecasts, and the latest forecasting approaches are being applied.</p>
<p>Do you have any comments or suggestions on further mitigating perceived risks associated with VG participation in the DAM?</p>	<p>Please see the <i>General Comments and Feedback</i> section.</p>

LT2 RFP & Contract: Key Provisions

Topic	Feedback
<p>Do you have any comments regarding the use of minimum production factors during proposal evaluation?</p>	<p>Capital Power supports the IESO establishing a minimum production factor to evaluate RFP proposals, provided such a minimum factor can generally be achieved by the technology being contemplated in this RFP, allows for monthly variances in operational performance, and continues to provide proponents enough leniency to adjust their production factors to account for the risks associated with the RFP and operation of the asset.</p>
<p>Do you have any comments regarding the application of the non-performance charge?</p>	<p>Capital Power is not opposed to the inclusion of a non-performance charge if the proponent’s facility’s annual generation does not meet a specified threshold over a several-year rolling basis. Planned outages and general maintenance associated with the good operation of a facility would need to be accounted for within the threshold. The threshold or actual performance would also need to be adjusted for situations outside of the operator’s control, including but not limited to economic curtailments, transmission or distribution outages, directives by the IESO, and force majeure events. Degradation in performance as the asset approaches end-of-contract should also be considered.</p> <p>Capital Power does recommend the IESO consider aligning the thresholds with those already proven to work in other jurisdictions. For example, the NYISO considered a threshold of 80% of an annual performance factor over a three-year rolling basis. Subject to other provisions, this may be more reasonable than the 85% included in the IESO’s presentation.</p> <p>The thresholds and penalties would need to be assessed against other contractual provisions, and Capital Power would require more information on what the IESO is considering before commenting further.</p>
<p>Do you have any comments regarding the treatment of outages under the LT2 Contract?</p>	<p>Capital Power does not have any comments at this time and would need to see other E-PPA provisions and potential settlement calculations before being able to comment further.</p>

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<p>Do you have any comments regarding the payback of Deemed Market Revenues greater than the Monthly Revenue Requirement?</p>	<p>As stated elsewhere in this submission, Capital Power has concerns if deemed energy revenue will be a fair representation of potential earnings and risk for a proponent – especially if the IESO ultimately decides that deemed energy revenue should be calculated using day-ahead prices. These concerns will need to be addressed if Capital Power were to consider a potential payback.</p> <p>As the market matures and fundamentals shift, there may be circumstances where actual earning potential will grossly underperform against deemed revenue in specific months. As such, Capital Power recommends that the IESO consider a partial payback rather than a full payback if a payback mechanism would be considered for the E-PPA.</p>

MT2 RFP

Topic	Feedback
<p>Do you have any comments regarding the IESO's considerations on the MT2 RFP, including timing, eligibility, and the interplay between repowering and the MT2 and LT2 RFPs?</p>	<p>Capital Power remains concerned with the timing of MT-2 for assets coming off contract mid-decade, even if MT-2 is advanced. As stated in our January submission, the owners of these assets must make immediate maintenance and life extension decisions or start work to prepare for decommissioning. A bridge contract to the start of MT-2 may not provide the appropriate assurance in term to justify investment to extend the assets.</p> <p>Capital Power continues to recommend that the IESO negotiate extensions for assets coming off contract in 2026 and 2027 to the end of these assets' useful lives. As stated in our January submission, this approach will allow the full life and value of these assets to be realized. It will also allow the IESO to immediately secure reliable and affordable energy that will be needed by Ontario.</p> <p>Capital Power is supportive of the concept for allowing existing owners to submit contingent bids into MT-2 and LT-2. We do require additional clarity on the specific provisions that would allow participation in both procurements before we can comment further.</p> <p>In terms of target setting, Capital Power reiterates it is not supportive of establishing MT RFP targets to be a percentage of eligible, existing resources coming off contract. As stated in our January submission, any MT RFP target that is based off facilities coming off contract risks the retirement and loss of affordable and proven renewable facilities during a time the IESO is forecasting a tremendous need for energy. Considering this need, the IESO should be looking for ways to extract all the inherent advantages of existing assets until the end of their useful life.</p>

Long Lead Time Resources

Topic	Feedback
Do you have any comments regarding the IESO’s considerations on Long Lead Time Resources, including timing, eligibility, targets, and term?	Capital Power does not have any comments at this time.

General Comments/Feedback

Deemed Revenue Using Day Ahead Prices

Capital Power remains concerned with the potential of day-ahead LMPs being used to calculate deemed energy revenue within the E-PPA. For the reasons below, we continue to recommend deemed energy revenue be calculated using a weighted average real-time LMP.

Not representative of actual intermittent resource operation

Deemed revenue is not the actual revenue a proponent will make. Rather, it is an estimate of what a proponent could make under specific assumptions. As highlighted elsewhere in this submission, it is imperative that proponents have a reasonable opportunity to meet their deemed revenue. For proponents to have this reasonable opportunity, the deemed revenue must be a reasonable representation on how a prudent operator would offer their facility into IAM.

The variability and unpredictability of intermittent resources, forecast error, and the need to financially backfill day-ahead positions means a prudent owner would generally not position an intermittent resource to be fully committed in the day-ahead market. Rather, they would create their day-ahead position based on forecast production, asset operations, market conditions, competition, price signals, and their overall trading risk tolerance.

The above day-ahead risks do not change, go away, or shift between the owner and IESO if the contract was deemed on day-ahead prices versus real-time prices. These risks will remain regardless of how the E-PPA is deemed. Instead, the use of day-ahead prices to calculate deemed revenue would introduce a new contractual risk, and there are foreseeable circumstances where this contractual risk would compound the overall risk for proponents. It would be uneconomical and exceptionally difficult, if not impossible, for proponents to mitigate these risks through the trading mechanisms expected to be introduced with MRP. Proponents who choose to take a more aggressive day-ahead position to account for their contracted deemed energy revenue would simply be taking on more risk, threatening their reasonable opportunity to make a return.

Calculating deemed revenue using day-ahead prices will not accomplish the IESO’s overall objectives.

During the engagement session, the IESO explained that they believe the use of day-ahead prices in the deemed revenue calculation will:

- increase day-ahead market liquidity; and
- provide incentives to have proponents make investments into emerging technology that would allow them to offer energy when it is needed most.

Capital Power respectfully disagrees that the use of day-ahead prices in the deemed energy revenue calculation would have these desired results. Rather, we expect it would result in other consequential outcomes that negatively impacts the market or grid operation. For example, proponents may simply choose to adjust their RFP proposal price to account for the perceived risk of using day-ahead prices within their deemed energy calculation, thus increasing the procurement costs for the IESO and ratepayers. More intermittent resources taking aggressive day-ahead positions or adjusting forecasting performance could also impact the overall reliability of day-ahead schedules, resulting in more challenged real-time operation for grid operators.

It is unreasonable to assume proponents would include costs of prospective technologies and undefined opportunities within their RFP proposals. As this is a competitive procurement with a defined scope, proponents will only include the costs of their base investment and risks associated this investment. Any future investment would be based on the opportunity for incremental earnings at the time of the investment.

Market based signals remain the best approach to achieve day-ahead market liquidity.

Capital Power opines that market-based price signals remains the most effective mechanism to achieve the IESO's desired result. If deemed revenue is based on real-time prices, then favourable differentials between the day-ahead and real-time market would incent intermittent generators to commit more energy in the day-ahead market after accounting for all risks. If prices dictate a higher energy need in hours they do not generate, then generators would be incented to invest in technologies to allow them to capture the incremental value in these hours, provided they can meet their expected return on this investment.

Uncertainty associated with MRP makes it difficult for proponents to assess the overall risk.

As MRP has not yet been implemented, the overall risk associated with the use of day-ahead prices in the calculation of deemed energy revenue is unknown. The risk could be large or small. However, it will not be fully understood until after MRP is integrated into the IAMs. The rollout of MRP is near the submission deadline for LT-2 proposals. Therefore, proponents will not have an opportunity to assess this risk prior to their RFP submission.

Ontario has unique market fundamentals that could impact how day-ahead and real-time prices settle, and it is unknown how MRP and market behaviour will react to these fundamentals. As such, it makes more sense to use a more proven method of treating intermittent resources by calculating deemed energy revenue off real-time LMPs and allow price signals to drive the desired participant behavior.

A true up mechanism should be considered if the IESO uses day-ahead prices to calculate deemed energy revenue.

The unknown of how day-ahead and real time prices will settle cannot be understated. Ontario's electricity market is going through an evolution. Capital Power strongly recommends that the IESO consider a true-up correction provision, or other contractual or settlement mechanisms that accounts for significant spreads in day-ahead and real-time prices if day-ahead prices will be used to calculate deemed energy revenue. Such a mechanism will provide proponents a level of assurance that they will maintain a reasonable opportunity to meet their return. These true ups can be complex and simply deeming energy revenue using real-time LMPs remains a more straightforward, simple solution.