Feedback Form

Long-Term 2 RFP – July 24, 2024

Feedback Provided by:

Name: David Thornton

Title: Director, Regulatory and Public Affairs

Organization: EDF Renewables Canada Inc.

Email: [redacted]

Date: August 9, 2024

Following the LT2 RFP July 24, 2024, engagement webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the items discussed. The presentation and recording can be accessed from the LT RFP engagement web page.

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 "Yes" below:

☐ **Yes – there is confidential information, do not post**

☒ **No – comfortable to publish to the IESO web page**

Please submit feedback to engagement@ieso.ca **by August 9, 2024.**

Topic	Feedback

Do you have any comments regarding the calculation of the monthly payment information presented?

Exhibit J – Calculation of Monthly Payment

Section 4.1 of Exhibit J states that if "the Monthly Payment is a negative amount, the absolute value of the Monthly Payment shall be payable from the Supplier to the Buyer."

EDFR would strongly urge that any revenues earned in excess of the Facility revenue requirement (product of the Fixed Price, Contract Capacity, Annual Average Imputed Production Factor and number of hours in the Settlement Month) be retained by the Supplier to cover the remaining day-ahead-to-real-time risk it is exposed to under the draft contract.

In Section 2 of Exhibit J, there appears to be a typographical error in the first equation setting out the test for whether the $DARTA_h$ = \$0

If $[\min(ADAQ_h, FDAQ_h) \times ADALMP_h] + ARTLMP_h \times [FRTQ_h - \min(ADAQ_h, FDAQ_h)] \geq 0.85 \times ADALMP_h \times \min(ADAQ_{-h}, FDAQ_h) \times IFDF_h$, then $DARTA_h$ =\$0.

We believe that the subscript on ADAQ should be "h" and not "-h" (highlighted in yellow above).

Exhibit F – Non-Performance Charges

We believe that there are several errors in Exhibit F. As the equation is currently drafted in Exhibit F it is not dimensionally correct and the result of the mathematical operation does not bear any relation to a Facility's Actual Production Factor. We think that the correct equation for the Actual Performance Factor should be:

$$\mathbf{APF_p = TDE_p/(CC \times (TH_p - Eh_p))}$$

The draft contract states that the Actual Performance Factor is calculated over the most recent three Contract Years and <u>not</u> a three-year rolling average basis as was presented at the June 13, 2024, IESO webinar (see side #47 in the IESO presentation). We think this means the Non-Performance Charge ("NPC") will remain constant for the entire year and doesn't get adjusted due to improved performance until the Contract Year is completed and the next Contract Year begins. This is a significant change from

Topic	Feedback
	what was stated during the June 13, 2024, IESO webinar. We urge the IESO to revert to the rolling average concept presented to stakeholders. Given how Actual Performance Factor and Performance Factor Shortfall are used in subsequent formulae, we do not see a need to multiply these values by 100 as Exhibit F states. We have identified several issues with the formula for the Non-Performance Charge: $$\mathbf{NPC = FP \times 0.8 \times PFS \times CC \times TH_p}$$ We believe that CC x TH_p term in the NPC equation needs to be multiplied by Annual Average Imputed Production Factor since this will result in the term representing the expected production from the Facility. Multiplying CC by TH_p implies that the Facility generates every hour over the three-year period, which cannot be correct. The NPC payback really ought to be the difference between the FP and average ADALMP over the three-year period since this is arguably the "overpayment" by the IESO for the actual production, i.e., the IESO isn't paying the full FP for the production, it pays the difference between the FP and prevailing average ADALPM. Use of TH_p in a charge that applies to a Monthly Payment results in a very large NPC that would persist for an entire Contract Year. We think that SMH_m should replace TH_p since the charge applies every month over the entire year. Please note that if the equation for the Performance Factor Shortfall is multiplied by 100, then the equation for NPC needs to be divided by 100.
Do you have any comments regarding the treatment of excess deemed revenues or analysis to share? Please attach any supporting information.	See comments above regarding Section 4.1 of Exhibit J – Calculation of Monthly Payment.
Do you have any comments regarding the proposed approach to the performance obligations?	See comments above regarding Exhibit F – Non-Performance Charges.

LT2 Capacity Contract - High-Level Design Details

Topic	Feedback
Do you have any comments or feedback regarding the design details presented for the Capacity Contract?	EDFR provided the following feedback to the July 4th webinar. The LT2 RFP July 4, 2024, engagement presentation, indicates the IESO is considering removing materials cost indexing from the LT2 RFP capacity stream that were features of the E-LT1 and LT1 procurements. EDFR would like to know why the IESO is considering removing materials cost indexing. Since IESO is considering removing the MCIA, EDFR strongly encourages IESO to replace it with some form of indexation in LT2. EDFR has made several comments in the past on how indexation can significantly reduce the risk of non-delivery. The economic headwinds brought on by inflation, combined with a significant shift in supply chains, exisiting or new tariffs, and increased customer demand for non-emitting electricity are still affecting pricing well beyond the reasonable control of the buyer and seller. Moreover, EDFR is seeing indexation as a fair and reasonable risk balancing lever in recent commercial and industrial (C&I) and utility PPA contracts. There are various relevant North American and international commodity price indexes, as well as general producer price indexes that could be applied in this case, and we would encourage the IESO to engage directly with proponents on this point. Two alternatives that we would propose include: 1) **100% CPI pre-COD**, and; 2) an adjustment mechanism for changes to CapEx. The adjustment can go up to a fixed price cap or down to a fixed price floor. If the adjustment exceeds the fixed price cap, then the buyer will have the option, but not the obligation, to proceed with the PPA contract at the fixed price adjustment exceeding the fixed price cap. EDFR would suggest a targeted and focused engagement to determine the appropriate design.

LT2 RFP Community Engagement Requirements

Topic	Feedback
Do you have any comments or suggestions regarding the approach for community engagement?	EDFR did not see any additional community engagement topics in the July 24th webinar. However, we eagerly await clarity on the evaluated mandatory community engagement criteria that IESO will require for a compliant bid. There remains a great deal of uncertainty on the timing/approvals of Agricultural Impact Assessment (AIAs) and proof of zoning if a solar project is sited on (previously) zone agricultural lands, or options available to change zoning post contract award. These details are essential to engage appropriately with municipalities, indigenous communities.

General Comments/Feedback

E-PPA Revenue Model

We would like to reiterate our previous feedback that Ontario would be best served using a proven revenue model (e.g., PPA with an indexed fixed price that does not depend on market outcomes) to attract the most competition to participate in the RFP, minimize risk on Suppliers, and yield the lowest prices for taxpayers. The E-PPA revenue model results in overly complex contract settlement that lacks transparency and is prone to errors.

Lengthen E-PPA Contract Term for LT2

We would also suggest that the IESO consider lengthening the term of the contract beyond the existing 20 years. Most jurisdictions in Canada have moved to 25- and 30-year contract terms that will better match product warranty and deliver an overall lower cost to ratepayers over the contract term.

Replace Materials Cost Indexing Adjustment (“MCIA”) with 100% Indexation to CPI to COD

The draft contract does not contain the Materials Cost Indexing Adjustment (“MCIA”) that formed part of the E-LT1 and LT1 contracts. We request that some form of pre-COD indexing be reinstated to provide some protection for Suppliers from inflationary pressures that persist in the economy. EDFR would recommend 100% indexation to Consumer Price Index (“CPI”) to COD.

IESO Market Rule Protection

Section 1.6 deals with Supplier protection from changes in IESO market rules. Unlike other IESO PPAs, such as the Large Renewable Procurement (“LRP”), where a market rule amendment that materially affects the Supplier's Economics[1], triggers the protection, the trigger in the draft contract is the inability of the Supplier to comply with its obligations under the contract without incurring material costs. We believe that the IESO ought to revert to the language in the LRP contract. There is a lot of uncertainty around the implication of the implementation of the IESO's Market Renewal Program ("MRP") to LT2 projects and we believe that LRP-like language affords Suppliers better protection considering this uncertainty.

We also noted that Section 1.6 further states that *"the amendments contemplated in this Section 1.6(b) shall not involve* ***an increase in the Fixed Capacity Payment*** (sic) ***or a decrease in any Monthly Imputed Production Factor****, unless otherwise agreed by the Parties"* (emphasis added). This effectively removes an increase in the Fixed Price and reduction in the Monthly Imputed Production Factor from an arbitrator's jurisdiction. An increase in Fixed Price or decrease in the Imputed Monthly Production Factor may be the only way to protect Suppliers from IESO market rules changes. We urge the IESO to strike this language from the draft contract.

Environmental Attributes

We understand that the IESO is prepared to leave the ownership of the environmental attributes with Suppliers. There is an exception to this for Environmental Attributes associated with Future Capacity Related Products, and we were wondering why this exception is being made since it seems to conflict with the position of leaving Environmental attributes with Suppliers.

> *"The Buyer shall have no interest hereunder in any Environmental Attributes arising from the operation of the Facility or,* ***except in respect of any Future Capacity Related Products****, other products or services associated with the generation of Electricity by the Facility." (emphasis added)*

Agricultural Impact Assessment ("AIA")

The draft contract states that the Supplier has an obligation to obtain an Agricultural Impact Assessment ("AIA") no later than 18 months after the Contract Date ("AIA deadline"). Furthermore, if the Supplier cannot obtain its AIA by the AIA deadline, then the IESO may elect to terminate the contract and return the Supplier's Completion and Performance Security.

We think that this right needs to be mutual, i.e., if the Supplier cannot obtain its AIA by the AIA deadline or if the requirements or recommendations of the AIA itself render the project uneconomical, the Supplier needs to have the right to terminate the contract without forfeiting its security.

[1] Where Supplier's Economics is defined in the LRP contract as the net present value of the revenues from delivering electricity that are reasonably forecast to be earned by a Supplier, net of any costs that such Supplier would be reasonably expected to incur, and taking into account any Commercially Reasonable Efforts the Supplier is reasonably expected to take to mitigate the effect of any IESO Market Rule amendments, such as by mitigating operating expenses and normal capital expenditures of the business of the generation and delivery of electricity.

Force Majeure

The draft contract expressly excludes the inability to obtain an AIA from permitting and approvals related Events of Force Majeure. We request that this exclusion be removed so that Suppliers can obtain relief, especially given the fact that there is an AIA deadline.

We also request that delays in construction of transmission or distribution infrastructure and delays due to supply chain bottlenecks be expressly included as Events of Force Majeure.

Early Completion Bonus

The draft contract does not include the Early COD Payment Multiplier that was a feature of the E-LT1 and LT1 contracts. We request that the Early COD Payment Multiplier be reinstated to provide Suppliers with an incentive to bring new energy supply online as soon as possible.