

Feedback Form

Long-Term RFP – February 8, 2022

Feedback Provided by:

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Following the February 8th public webinar on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on a variety of elements to help further inform the draft RFP and Contract, including: potential revenue streams, contracting mechanisms, term length and forward period, ability of resources to meet mandatory requirements and rated criteria, as well as the general approach to the RFQ including the proposed method to evaluate finances and experience.

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

Please provide feedback by February 18, 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.

Revenue Streams

Topic	Feedback
<p>Please provide feedback on the revenue stream options that the IESO proposed.</p> <p>Are there additional revenue streams that proponents see that can be monetized?</p>	<p>More certainty from contracted revenues for capacity, energy, environmental attributes, and ancillary services will inevitably lead to lower pricing.</p> <p>Excluding revenue streams from the contract will impact project economics due low market visibility in Ontario. Debt is available and sized (DSCR) only on contracted cash flows (not merchant cash flows). By excluding key revenue streams from the contract, the amount of debt available to a project is significantly reduced, which will increase project costs.</p> <p>Furthermore, merchant revenues are discounted at higher rates than contracted revenues. In a market like Ontario, which is smaller, less liquid, and has fewer options for re-contracting than other ISOs, this merchant premium can be significant and lead to higher project costs.</p>
<p>Other jurisdictions have procured new-build resources under long-term agreements through a variety of contract types (power purchase agreements, capacity only contracts, capacity contracts with energy components, etc.). What lessons do stakeholders have from their experience with these other contracting mechanisms?</p>	<p>A full toll or PPA (with bundled capacity, energy, ancillary services and environmental attributes) will likely be the cheapest, most bankable option and provide best value to the ratepayer.</p> <p>If the IESO wants projects to operate within the merchant market, then a contract for differences would be aligned with what we see in other jurisdictions and would provide a higher level of bankability than more bespoke options.</p>
<p>What opportunities do stakeholders see in the future to monetize environmental attributes ?</p>	<p>We see two opportunities to monetize environmental attributes: transactions with C&I parties within Ontario, and the ability to export to neighboring jurisdictions.</p>

Topic	Feedback
<p data-bbox="181 199 734 241">Term Length and Forward Period</p> <p data-bbox="181 262 251 294">Topic</p>	<p data-bbox="917 262 1039 294">Feedback</p>
<p data-bbox="181 1512 876 1575">Please provide feedback on the options for additional term-length that the IESO proposed.</p>	<p data-bbox="933 304 1510 577">Early Commercial Operation: This option could be viable, but may invite unnecessary gamesmanship, as we've seen in the early FiT procurements in Ontario that had COD Acceleration Days. As we describe below, we believe term lengths should be a bid option.</p> <p data-bbox="933 619 1510 1134">Additional term for high-value resources: We have seen system benefits as a non-price criteria in other RFPs. We are unsure how IESO would quantify that value for each project and relay that information back to developers for them to include the additional term length in their financial model prior to bid submission. In other RFPs we've seen, if developers believe their project will provide system benefits, they can chose to set their bid price based on the level of grid benefit points they think they can obtain in the non-price considerations.</p> <p data-bbox="933 1176 1510 1575">Bidding in term length: Allowing to bid term length alternatives would provide the IESO with useful benchmarks that would allow it to better understand the premium associated with shorter contracts. In addition to serving as a price discovery exercise, it would likely yield the broadest and most competitive array of bids. A similar consideration could be applied to revenue streams.</p>

Topic	Feedback
<p>Do stakeholders feel that the options presented provide proponents with some certainty from an investment and/or financing perspective?</p>	<p>The 10 year term length provides a significant level of risk and has an important impact on project economics:</p> <ol style="list-style-type: none"> <li data-bbox="987 327 1515 600">1) By having shorter contractual terms, the debt amortization period is shorter and reduces the amount of debt available to the project. This significantly reduces the amount of leverage available to a project and increases its overall cost. <li data-bbox="987 646 1515 1392">2) Ontario does not yet have a track record showing a high level of commitment to its merchant market (as we see in CAISO and ERCOT). The risk of having stranded assets after the contract term with no viable offtake is an important consideration. Developers have very little mitigants at their disposal since this risk is mostly dependent on IESO's long term procurement decisions. Unmanageable risks will inevitably lead to higher equity premiums and project costs. It is also conceivable that operators could relocate their project to more favorable markets. Moving containerized solutions out of Ontario and into more lucrative markets.
<p>What are some options for additional term that the IESO should consider?</p>	<p>We believe that allowing developers to bid various term alternatives will provide IESO with the best possible offers.</p>

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<p>Are stakeholders aware of any resources (new-build and/or expansions to existing resources) that able to come into service as early as 2025?</p> <p>What challenges would resources face with being fully operational by 2025?</p> <p>Please provide any additional information that may help inform the IESO of potential projects and their development timelines, in order to help guide discussions around LT I RFP forward periods.</p>	<p>We believe there is an opportunity to add imports while using existing transmission interties. These could be ready in 2025, as the assets in the adjacent jurisdictions are at advanced stages of development.</p> <p>Challenges resources will face will be;</p> <ol style="list-style-type: none"> 1) Procurement of equipment 2) Interconnection Timelines (HONI)

Mandatory Requirements and Rated Criteria

Topic	Feedback
<p>Please provide feedback on the mandatory requirements the IESO proposed.</p>	<p>The minimum of 4h duration and the full dispatchability will make it difficult for solar and wind to compete, even more so if resources are evaluated on a UCAP basis.</p>
<p>The IESO presented a number of technical characteristics that are desirable from a system value perspective, that may form rated criteria in LT I RFP.</p> <p>Please provide feedback on the characteristics proposed and their applicability as rated criteria.</p>	<p>These requirements will disproportionately favour gas plants compared to wind and solar. Storage would meet most of the criteria, although the 8h duration requirement is not in line with what other ISOs are requiring of their battery projects.</p>

RFQ

Topic	Feedback
<p>Do stakeholders feel that the high level approach proposed for the RFQ satisfies the IESO's goal of ensuring that interested parties have the capability to undertake project development for the LT I RFP, while also enabling competition?</p>	<p>We believe that enabling longer contract terms, having bundled contracted revenue streams, and moving away from UCAP will lead to the highest quality bids and the most competition. Introducing as much flexibility in the RFP will likely provide solutions IESO may not be anticipating.</p>

General Comments/Feedback