

# Feedback Form

## Long-Term RFP – July 21, 2022

### Feedback Provided by:

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Following the July 21<sup>st</sup> public webinar on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on: Municipal Council Support Resolution, Contract Design, Revised Timelines, and the Deliverability Test Guidance Document.

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

**Please provide feedback by August 4, 2022 to [engagement@ieso.ca](mailto: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.

# Municipal Council Support Resolution

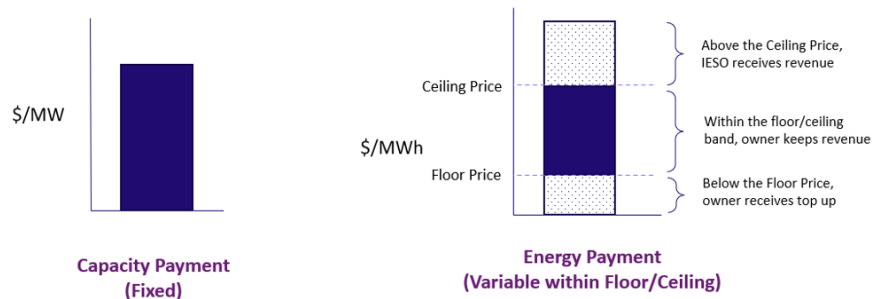
Topic	Feedback
<p>Please provide any feedback on the IESO’s proposal to change the Municipal Council Support Resolution from a mandatory requirement to a rated criteria.</p>	<p>Obtaining municipal support letters prior to the RFP deadline may be challenging for both proponent and municipalities and should not be included as a prerequisite for the RFP. The reason being municipal elections are scheduled to take place as of October 24, 2022 and obtaining formal support letters around this time may be challenging.</p> <p>Nonetheless, proponents should be supportive of providing evidence that municipal consultation and engagement has occurred prior to RFP submission.</p>

# Proposed Contract Design

Topic	Feedback
<p>Please provide any feedback on the potential use of indexing in the contracts and what indices (if any) may be best suited for these procurements.</p>	<p>A contract design that provides benefits to both the proponent and the IESO in a format that is easy understand, execute, and manage for the duration of the contract life is favourable. An effective option to recognize these benefits is through a capacity payment-only contract. As this style of contract is more straightforward to evaluate than contracts with energy price spread adjustments, it would help support the expedited nature of this RFP. This structure also allows for proponents to forecast incremental energy revenues and the consequential competitive downward pressure on the capacity price bidding value will benefit IESO. Lastly, a capacity payment-only contract provides the correct market incentive for proponents to actively participate in the market and be efficient operators.</p>

A second and expanded alternative is to use the same contract methodology as the IESO proposed Small Hydro Program – that being a fixed capacity payment plus a variable energy payment with a floor and ceiling price. A demonstration example is outlined below:

$$\text{Revenue} = \text{Capacity Payment (Fixed)} + \text{Energy Payment (Variable within Floor/Ceiling)}$$



This would be the preferred contract design as we believe it strikes a more equal balance between the objectives of the IESO and the objectives of proponents. With respect to the IESO, the revenue certainty provided by the floor on the energy payment should translate into a lower capacity payment given reduced pricing risk being borne by proponents. Additionally, the floor on the energy payment would provide revenue certainty / reduced risk for project financiers, which would translate to lower the cost of debt and equity capital and by effect, a lower cost of energy for the IESO. With respect to the ceiling on the energy payment, this would reduce the IESO's exposure to procuring expensive / above-market power.

With respect to proponents, the floor on the energy payment helps create a better revenue certainty balance. This revenue certainty is important for two key reasons:

1. Project economic modeling – The floor on the energy payment provides a baseline revenue assumption that proponents can utilize in modeling project economics. A revenue structure that is entirely variable or highly variable makes economic modeling more challenging and this can cause proponents to price the energy inappropriately. The ceiling would also assist in economic modeling as revenue realized in excess of the ceiling can be ignored by proponents.
2. Raising project financing – A revenue structure that is entirely variable or highly variable will either increase the

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	<p>cost of energy as the cost of debt and equity financing will be higher due to the risk or it will cause financiers to become uninterested in financing the project due to the high revenue risk. This is disadvantageous to proponents as it could lead to projects being stranded and not constructed (also a concern for the IESO in meeting its capacity requirements) and would be disadvantageous to the IESO given a higher cost of energy requirement for proponents to make their projects economical.</p> <p>Separately, the “band” between the floor price and the ceiling price provides proponents with an ability to capture revenue upside and should provide the requisite incentive / reward to proponents relative to their equity capital deployed. For the IESO, this variable exposure and upside should translate into a lower fixed capacity payment.</p> <p>The currently proposed IESO contract structure that limits capacity payments creates market uncertainty for developers as it may encourage proponents to be conservative in their market assumptions and reduce the overall competitiveness of capacity price proposals.</p>

## LT1 RFP and Expedited Process: Revised Timelines

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<p>Please provide feedback on the proposed revised timelines and whether these seem appropriate.</p>	<p>We are supportive of the revised timelines for the RFP processes, except for the commercial operation date. With the contract award being shifted two calendar months, it is recommended that the commercial operation date also be shifted by two calendar months.</p> <p>The expedited timeframe may create interconnection risks and we are seeking additional clarity on how the interconnection in-service date risks will be structured contractually. Can additional details around deferral of commercial operations date, liquidated damages, and contract term be provided prior to or within the RFP?</p>

## Deliverability Test Guidance Document

Topic	Feedback
<p>Please provide any feedback on the Deliverability Test Guidance Document and associated form.</p>	<p><b>Project Location:</b> If GPS coordinates are provided, is an address required? The IESO has been clear that project location cannot change following RFQ submission. Is there a minimum distance from the GPS coordinates that the physical project facility must be located? For example, is a land parcel adjacent to the land parcel identified within the GPS location acceptable?</p> <p><b>Qualified applicant ID:</b> When will applicant ID's be provided to proponents?</p> <p><b>Project priority sequencing:</b> Is there criteria on how lower priority projects will be disregarded? Once a project in the priority sequence is disregarded, will the following projects lower in the sequence also be disregarded? Outside of project locations and points of interconnection, are there any additional details that the IESO can provide to help proponents sequence projects?</p> <p><b>Nameplate capacity:</b> For storage projects specifically, is the IESO expecting the nameplate capacity to remain consistent in the summer and winter months to ensure a consistent storage capacity year-round?</p> <p>Second, is there an expectation to maintain the nameplate capacity that receives a deliverable or deliverable but competing in the deliverability test in the RFP? For example, if the 1<sup>st</sup> choice of nameplate capacity achieves deliverable or deliverable but competing, yet the 2<sup>nd</sup> and 3<sup>rd</sup> choice had lower nameplate capacity, is the proponent held to the 1<sup>st</sup> choice nameplate capacity for RFP submission, or can the proponent submit a proposal for a project less than the capacity reviewed in the deliverability test?</p>

## General Comments/Feedback