

# Engagement Meeting: Expedited Long-Term Procurement (E-LT1)

## Meeting Notes

Date: November 7, 2022

Time: 2:00pm

Facilitator: Colin Campbell, Senior Advisor, Stakeholder Engagement

### Welcome and Introductions (slides 1-3) – Colin Campbell

The IESO welcomed stakeholders, both online and in-person, to the meeting, and provided an outline of the meeting agenda. The meeting agenda included: Opening Remarks, revised procurement timelines, an update on the Same Technology Upgrades Solicitation, recent stakeholder feedback and key changes to the Draft E-LT1 RFP and Contract, and a description of the Alternative Revenue Model being proposed for Electricity Storage Facilities. The IESO concluded the meeting with a reminder of the stakeholder feedback submission process and associated deadlines.

### Opening Remarks – Chuck Farmer

The IESO delivered opening remarks to ensure stakeholders had an understanding of the rationale for conducting additional stakeholder engagement. The IESO noted a common theme in the last turn of stakeholder feedback - potential challenges with the proposed timelines. Timeline challenges identified by stakeholders applied to: involvement of the Canadian Infrastructure Bank (CIB) in the latter stages of the procurement, ability to consider the results of Deliverability Tests when arranging project financing, and engagement between potential Proponents and communities, many of the latter having recently concluded municipal elections.

In response to feedback received from some stakeholders regarding the storage projects' revenue model proposed in the E-LT1 Contract, and discussions with potential Proponents, the IESO also explained that an alternative revenue model would be presented for stakeholder feedback.

### Revised Timelines (slides 4-6) – Adam Butterfield

The IESO presented revised E-LT1 RFP timelines, and described the downstream impacts of the schedule changes, including potential modifications to the draft RFP and Contract with respect to

milestone dates. The IESO noted that the LT1 RFP schedule will also be updated accordingly in response to the revised E-LT1 schedule, and indicated this would be discussed at a future meeting.

*A stakeholder asked if there is any way to expedite the contract offer, suggesting that March 31, 2023 may be too late, and could jeopardize permitting by not allowing enough time for the required environmental fieldwork.*

The IESO responded that March 31, 2023 is the target date for the contract offer announcement, and that the final date will depend on the volume of proposals received.

## Update on Same Technology Upgrades Solicitation (slides 7-8) – Adam Butterfield

The IESO provided an update on the Same Technology Upgrades Solicitation, and informed stakeholders that updated Solicitation documents have been posted to the [IESO's Resource Acquisition and Contracts webpage](#). The IESO reminded stakeholders of the December 20, 2022 submission deadline, and noted the IESO will continue to consider stakeholder feedback, and may make further revisions, including adjusting timelines, should any be warranted.

## Stakeholder Feedback and Key Changes to Draft E-LT1 RFP (slides 9-15) – Adam Butterfield

The IESO presented key changes made to the Draft E-LT1 RFP in response to stakeholder feedback. Key drafting changes were made in the following areas: Proposal Security, Outlier Bids, and Evaluation.

*A stakeholder asked what happens to a Proponent's security if their proposal is withdrawn before contract award, and further, what happens if the withdrawal is the result of development issues with meeting commercial operation.*

The IESO confirmed that a Proponent must withdraw their proposal prior to the proposal submission deadline to get their security back. The IESO also commented that the E-LT1 process is meant for projects that are advanced, and as such, committed to attaining the commercial operation date contemplated under the draft Contract.

*Several stakeholders sought clarity on proposal evaluation, and whether the allocated non-storage capacity would be reallocated to storage if the non-storage target is not met. One stakeholder also questioned what would happen if there are two projects that are deemed to be "Deliverable but Competing".*

The IESO confirmed that if upon evaluating projects under the Non-Storage Category, it is determined that the target is filled up, the allocated capacity from the Non-Storage Category would be reallocated to be filled up by the Storage Category. And further, if the remaining target capacity cannot be filled by Storage, it may be added to the LT1 target capacity. The IESO also confirmed that in the event two projects are deemed to be "Deliverable but Competing" with each other, the second Deliverability Test will favour the Non-Storage project.

*A stakeholder asked whether the inability to obtain Planning Act consent from the Municipal Committee of Adjustments for subdivision consent for purposes of a lease longer than 21 years would fall under the category of Force Majeure stated in the E-LT1 Contract in Sec 11.3(i) for inability to secure required permits.*

The IESO indicated the question would need to be further considered before responding. The IESO has considered, and is comfortable acknowledging it is possible a denial of a needed subdivision consent from the Committee of Adjustment could be considered an event of Force Majeure, provided that the other elements of the definition of Force Majeure (including Commercially Reasonable Efforts to avoid or mitigate) are met in the circumstances.

*A stakeholder asked several questions with respect to the Deliverability Test: how do the two stages of the Deliverability Test differ, whether there would be any impact on the ongoing Deliverability Test, if there will still be a final outcome by November 30, 2022, and more clarity on the interplay between the Deliverability Test and Connection Impact Assessment (CIA) and System Impact Assessment (SIA).*

The IESO confirmed there will still be one final outcome of the Deliverability Test by November 30, 2022, and that its results would have no impact on the ongoing test. The IESO also clarified that the Deliverability Test process is separate from the CIA and SIA processes, in that the former only tells us that the electrons can flow where and when we need them, but does not inform about any related connection costs that may be allocated by applicable connecting authorities.

The IESO also provided clarity on the subsequent deliverability test that is conducted at Stage 5 and takes into consideration the Non-Storage Category, first, followed by the Storage Category. The IESO explained that Proposals deemed “Deliverable but Competing” will be subject to a subsequent deliverability test, which takes into consideration all projects already added to the offer list, following which a Proposal will either be found to be “Deliverable” and added to the Offer List, or “Not Deliverable”, and not processed further.

To obtain more information on the Deliverability Test process, the IESO directed stakeholders to the Deliverability Guidance Document posted on [IESO’s Resource Acquisition and Contracts webpage](#).

*One stakeholder noted that the Deliverability Guidance Document mentions that the IESO retains the right to conduct only one test scenario, should there be time constraints, and asked if the IESO could provide an update on how many of the three configurations per project have been considered so far throughout the test process.*

The IESO did not have an update to provide at this time, and committed to conferring with Transmission Planning. The IESO is working diligently to test all three scenarios per project, but there are no guarantees time constraints will not prevent the IESO from testing all three scenarios per project.

## Stakeholder Feedback and Key Changes to Draft E-LT1 Contract (slides 16-27) – Marko Cirovic

The IESO presented key changes made to the Draft E-LT1 Contract in response to stakeholder feedback. Key drafting changes were made in the following areas: Market Rule Provisions, Materials

Cost Index Adjustment (MCIA), Degradation of Batteries, Remedies of the Buyer, Events of Default by the Supplier, Change of Control and Reimbursement Reference Efficiency.

*A stakeholder noted that the Deliverability Test could deem a project "Deliverable", but then the CIA results reveal the project is ultimately not fully deliverable, and questioned whether some sort of off-ramp would be mutually beneficial. As a further example, the stakeholder pondered the outcome if a 100 MW facility deemed Deliverable was then found to trigger a Network Upgrade based on the CIA, and asked if there could be a mechanism to reduce Contract Capacity accordingly.*

The IESO responded that it would need to take this question/suggestion back and respond at a later time.

*A stakeholder asked whether the IESO has considered publishing the contractually obligated prices (for Proponents who actually sign contracts), to aid in price discovery for future procurements.*

The IESO noted there is language that describes what the IESO can publish, and clarified that it could not publish individual prices, but could release aggregate pricing.

*Stakeholders sought clarity on the Materials Cost Index Adjustment (MCIA), wondering when the MCIA would apply, and whether the IESO would look for documentation. One stakeholder asked specifically whether certification would be enough to prove a contract with a supplier.*

The IESO confirmed that Suppliers under a contract who have finalized their costs can lock their MCIA to a date earlier than 18-months after the Contract Date, by providing the IESO a certificate or proof of their supply agreements in order to confirm the date in question.

*In response to the IESO's position that allowing for Proponents to pick their own weightings in the MCIA could lead to gaming, a stakeholder asked for an example of how the 'gaming' could happen.*

The IESO responded that there are a number of factors that could allow for Proponents to artificially increase their contract price. For example, having a locked in price for batteries earlier in the process and seeing the price for lithium on an upward trend, a Proponent could choose a 100% indexation to lithium and capture an increase in their contract price that is above the actual increase in costs.

*A stakeholder asked whether the declining Capacity Contract provision to account for battery degradation would apply to generation projects as well.*

The IESO confirmed that this provision, a reduction in Contract Capacity that would lead to a commensurate reduction to payment, only applies to Storage projects.

*With respect to the Planned Outage Capacity Reduction Factor (POCRF) included in the draft Contract, a stakeholder commented that capping the monthly reduction to 95% does not work for generation projects.*

The IESO responded that it is open to hearing feedback on this, and could consider adjusting the POCR, but has not yet seen consistent feedback on the topic.

*A stakeholder commented that for the E-LT1, where projects are intended to be 'ready to go', developers will not yet have an idea of what the connection costs will be. Recognizing that no developer will want to walk away from a contract, the stakeholder recommended the IESO consider alternatives such as contractual "off-ramps". The stakeholder then also questioned whether there is*

*enough difference between E-LT1 and LT1 procurements for developers to have less of a risk in the second (LT1) process.*

The IESO reaffirmed the cadenced nature of the procurements in question and the opportunities available for projects not yet ready under the E-LT1 RFP. The IESO also responded that it would need to consider this further under future procurements.

*A stakeholder suggested they see potential for a few large projects to win out on cost competitiveness, despite not being in the best overall interest for the grid, and wondered how locational diversity of projects is being considered.*

The IESO responded that the numbers chosen (600 MW for the Non-Storage category) were chosen with the information collected on potential projects, and that the IESO is comfortable with large projects, as it is seeking to meet a reliability need.

*A stakeholder commented that there are no provisions in the contract for "safe harbor" from being directed by the system operator to mandate uneconomic operation under emergency conditions, and suggested section 13.1 should be expanded on.*

The IESO responded that Suppliers are absolved from must-offer obligations during the course of an emergency event that is caused by extreme weather as an event of Force Majeure. The IESO also directed the stakeholder to review IESO Market Rules as they will govern for all Market Participants, regardless of contractual status.

## Revenue Model Considerations (slides 28-37) – Marko Cirovic

The IESO described the alternative contract design / revenue model being proposed for Storage projects, noting that this alternative approach is based on a model previously used in California and was put forward by CanREA in August as an option to mitigate the risk identified by Proponents regarding uncertain future energy market pricing and dynamics. The IESO explained that they have been further evaluating this model, a Capacity Contract with Energy Settlement, as a replacement to the current Capacity-Style Contract model. The IESO stated that Contract design would not be changing for Non- Storage resources.

The IESO walked stakeholders through an overview of the proposed model, outlined that this model could be implemented without the need for a bespoke evaluated price model that relies upon forward hourly pricing by fixing the O&M and Roundtrip Efficiency variables. The IESO also highlighted a key difference between what CanREA had proposed compared to the original model used in California. The IESO outlined six questions that the IESO is seeking feedback on, and clarified that any substantive modifications or proposals beyond those identified in the presentation would not be entertained, as that would require additional stakeholdering, and could risk jeopardizing the overall timelines of the Expedited Process.

*A stakeholder commented that the revenue model originally proposed by the IESO allowed the option to bid in a 0% adjustment and effectively take a straight capacity approach, and asked why this optionality is disappearing with the new proposed approach.*

The IESO responded that offering stakeholders the optionality to choose between a capacity contract and the CanREA model would introduce significant complexity as it would necessitate an evaluated

cost model to be developed, stakeholdered, and finalized. Comparing a deemed model with a straight capacity model requires this significant forward-looking approach and modelling in order to ensure the overall most economic projects are chosen.

*A stakeholder commented that it is possible the deemed revenue model could be better for the ratepayer, but suggested that if the change is made at this point, it will likely be more trouble than it is worth. The stakeholder sought clarity on how the proposed revenue mechanism interplays with Operating Reserve (OR), and expressed significant concern as to whether it would be financeable. It was further commented that the 'CanREA model' may incent participants to just operate to meet the deemed dispatch in order to mitigate risk as opposed to actually optimizing for what is best for the system.*

These comments were met with considerable virtual thumbs up and applause, suggesting many Proponents agreed with this assessment. The IESO noted that it appreciates the feedback, and encouraged Proponents to submit feedback in writing.

*A stakeholder asked if the 'CanREA model' specifies where charging/discharging needs to happen with respect to the Qualifying Hours.*

The IESO confirmed that yes, the model specifies when charging/discharging needs to happen - charging would be deemed outside of Qualifying Hours and discharging during Qualifying Hours.

*A stakeholder recommend the IESO delete the provision in section 7.1(k) of the E-LT1 contract related to the representation that the facility is capable of delivering the contract capacity under normal operating conditions.*

The IESO responded that it thinks this is a basic foundational representation, and important safeguard, it did not present a problem in the Medium-Term procurement and should be able to remain true and correct regardless of expected operational changes and outcomes. Additionally, the added flexibility of reduced Contract Capacity for battery degradation should ensure provide added comfort in the ability to stay onside this representation.

## Next Steps and Stakeholder Feedback Submission Process (slide 38) – Colin Campbell

The IESO notified stakeholders that the revised E-LT1 RFP and Contracts would be posted by November 8, as well as a rider that outlines the alternative revenue model. Stakeholders were encouraged to submit written feedback on the revenue model to the IESO by November 14, 2022, with a request to include as much supporting rationale as possible.

The IESO clarified that no other substantive changes are being considered at this time, but noted that any general feedback as it relates to the latest draft RFP and Contracts would be accepted until November 21.