

Feedback Form

Long-Term RFP – November 7, 2022

Feedback Provided by:

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Following the November 7th public meeting on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on the proposed deemed generation model.

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

Please provide feedback by November 14, 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.

Thank you for your contribution.

Deemed generation model

Topic	Feedback
Do you support the proposed approach with fixed VOM and CRE value? Please explain why or why not.	
Do you have any feedback on the use of non-continuous 4 hours in the model?	
Is there anything further you recommend be considered with respect to the implementation of this alternative model?	
Do you have any general feedback on the two models presented, including any feedback on financeability?	
Do you have any feedback on potential market and operational impacts between the two models?	

Materials Cost Index Adjustment (MCIA): Lithium

Topic	Feedback
Do you have any feedback on the appropriate weighting for lithium in the MCIA?	

General Comments/Feedback

Feedback on the deemed generation revenue model

- We discourage the IESO from implementing the revenue model proposed during the November 7th workshop (the “Capacity Contract with Energy Settlement” or “the Deemed Dispatch Model”) and would strongly favour the IESO remain with a capacity-only contract. We present our rationale below:
 - (i) The energy settlement formula in the Deemed Dispatch Model oversimplifies the true dispatch profile of energy storage and does not fully reflect the flexibility energy storage provides. To that end, actual economic dispatch in the market may differ significantly from the simplified dispatch in the contract. One such example is when storage is dispatched to provide Operating Reserve – which is expected to

be a significant driver of market revenues – but that is not accounted for in the proposed deeming structure. Such potential discrepancies between actual and deemed operations limits the value of the contract as a hedge against market revenues.

We believe it is not possible to pre-determine what the optimal dispatch profile will be over the life of the contract. By providing a contract with a deemed dispatch, operators may be incented to match the dispatch profile in the contract as closely as possible to minimize revenue risk in the contract. We believe this will result in a suboptimal dispatch for the system overall and will limit the potential for energy storage to provide the highest value to the grid.

- (ii) The Deemed Dispatch Model will add significantly more complexity for lenders underwriting energy storage assets and is unlikely to support significantly more debt capacity. The Deemed Dispatch Model embeds market price risk and operations risk into the contract that will need to be estimated and valued by lenders. To determine the amount of contract revenues they are comfortable lending against, lenders have indicated they would need to take a conservative view on asset performance relative to what is assumed in the deeming model. In this way, the proposed hedge does a poor job of increasing the bankability of the project.
- (iii) We believe there is insufficient time to dramatically change the revenue model. The proposed changes to the revenue model create several variables that participants will need to take a view on prior to the expedited bid date; most notably, how forecasted deemed revenues compare to forecasted market revenues.

Feedback on the Investment Tax Credit and participants ability to fully value the benefit by bid submission

- We are very encouraged by the recent announcement with the Fall Economic Update that energy storage would receive support through additional tax credits. However, a lot of details remain undefined making it difficult to fully value the benefit of the ITC by bid submission. This includes the exact capital expenditures that can be included when claiming the credit, the timing and form of the benefit, and the labour conditions that must be met to be able to apply for the full 30%. Many of these variables will only be known after the budget is passed and a consultation process is complete.

Bids will need to be submitted over two months ahead of the budget being passed, leaving developers with the risk there will be differences between what was expected at bid submission and the ultimate regulation.

Feedback on proposed option to reduce contract capacity to manage degradation

- We appreciate that the IESO is addressing the reality of capacity degradation for energy storage in the proposed contract. That said, we believe that the contract should provide more flexibility to account for asset degradation. Specifically, participants should have the option to select a lower capacity every 5 years as opposed to just once at year 10. We believe this will ultimately result in a contract capacity profile that better matches reality, allowing participants to reduce the amount of contingency they need to build into their bids.