Feedback Form

Long-Term RFP – March 28, 2023

Feedback Provided by:

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Date: April 11, 2023

Following the March 28th public webinar on the Long-Term RFP (LT1 RFP), the Independent Electricity System Operator (IESO) is seeking feedback from participants on design of the LT1 RFP and LT1 Contract.

The referenced presentation can be found on the Long-Term RFP webpage.

Please provide feedback by April 11, 2023 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.

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LT1 RFP Design and Lessons Learned from E-LT1 RFP

Topic	Feedback
E-LT1 RFP: Please provide any general feedback reflecting on your participation in the E-LT1 RFP as it relates to the upcoming LT1 RFP.	The IESO expended significant and noteworthy efforts to respond to stakeholder feedback and balance competing stakeholder interests in the design of both the E-LT1 RFP and E-LT1 Contract. We look forward to a similarly constructive engagement process for the LT1 RFP. Our feedback has been developed with consideration to our experience in the E-LT1 RFP process, and with a view to furthering continuous improvements that will support competition and drive ratepayer value. We appreciate the opportunity to provide this feedback and the following recommendations to the IESO. **1. Timelines communicated must be credible, reliable, and designed to facilitate project development.** Throughout the E-LT1 process timelines were shifted back, directly impacting proponents and resulting in an overall increase to costs and risk borne by developers. The IESO should prioritize allocating resources needed to ensure it can adhere to its self-selected published timelines. Dates and milestones should only be shifted where events not reasonably foreseeable have had a direct and unavoidable impact on the IESO's process. If the IESO knows it will not meet its **Target Date for Notification to all Proponents,** the IESO should promptly communicate the revised date as changes will impact the earliest potential **Contract Date** and achievable **Commercial Operation Date**. Provisions of the Contract relating to **Milestone Dates** and **Delay Liquidated Damages** should accordingly be updated to allow for commensurate changes in the event of timeline delays caused by, or resulting from, IESO actions. **2. Permitted and prohibited communication provisions in section 3.4 of the E-LT1 RFP should be revised to avoid unnecessarily restricting legitimate development and stakeholder engagement activities.** Capital Power has previously commented that the IESO's limits on communication with relevant regulatory, municipal, and government officials and stakeholders are unnecessarily broad. The definition of Excluded Purposes in future RFPs should be limited to communications

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	undertaken for the purpose of obtaining an unfair advantage, or for a purpose prohibited by law. **3. The Deliverability Assessment ("DA") process is flawed and the IESO should prioritize targeted revisions for the LT1 RFP.** The DA process used for the Expedited LTRFP presented significant challenges for proponents due to lack of detail provided, administrative complexity, and protracted timelines. The process did not provide opportunities for proponents or the IESO to identify minor upgrades that could, with proponent investment, alleviate transmission constraints. Without flexibility to consider additional investment as part of the process, we expect that competitive projects were prematurely disqualified. Administrative complexity further created material risk for proponents, as prescribed forms lacked the clarity needed for a process that is a critical path item for interested developers. Further to our previous comments with respect to timelines, the timeline for communicating results of the DA risked frustrating development activities the IESO requires as part of its RFP process. To improve the process going forward, we recommend the IESO undertake the following changes: i. The IESO should release its base case data to proponents to assess deliverability and evaluate investment needed to remedy any constraints. ii. Maximum inputs at each connection point (based on generation type) should be calculated and communicated to proponents, with the understanding that maximum inputs are subject to ultimate RFP results. iii. Estimates with respect to the cost of connection should be communicated to proponents. iv. Where a project connects to a double circuit line, proponents should be able to select both lines *or* either line. Ideally, the process should be designed so that the IESO provides its detailed deliverability base case to all proponents, who in turn bear connection risk. Following bid evaluation, if a project is deemed non-deliverable the proponent would forfeit its security and the contract would not be executed. We understand this approach may not be possible under LT1 due to compressed timelines and the IESO's concern respecting project delivery, but we nevertheless strongly encourage the IESO to consider this approach to evaluating deliverability as it incentivizes cost competitive solutions to solving system constraints.

Topic	Feedback
LT1 RFP design: Please provide any feedback on the proposed Mandatory Requirement for Municipal Support.	No comments at this time.
LT1 RFP design: Please provide any feedback on the Rated Criteria Categories and Point Allocation.	We believe two additional categories should be added to the Rated Criteria: • **Resource Flexibility.** If the IESO requires resources capable of flexible responsiveness to system needs, this requirement should be included in the rated criteria. • **Materials Cost Index Adjustment ("MCIA") Election.** Election to use the MCIA should be included as a category in the Rated Criteria to incentivize and reward proponents that choose to bear the risk of input costs. Proponents that bear the risk of input costs should be awarded additional points, whereas Proponents that elect to apply the MCIA, and thereby transfer risk to the IESO and ratepayer, should receive zero or negative points.

Indigenous Community Participation

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Please provide any feedback on the Rated Criteria for Indigenous Community Participation as contemplated in the E-LT1 RFP as it relates to the upcoming LT1 RFP.	No comments at this time.

Proposed Contract Design: General Feedback

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Please provide feedback on any contract provisions you wish to comment on. *Note: the commercial structure/ revenue model for the LT1 Contract will not be modified from that which was used under the E-LT1 Contract.*	Capital Power has provided previous comments to the IESO in which we have set out our concerns with the inclusion of the MCIA. We continue to believe the MCIA is an ineffective mechanism for managing risk. It is also costly since it *increases* risk through the introduction of foreign exchange risk between the Chinese renminbi, the US dollar, and the Canadian dollar. We are aware of arguments that the IESO should include contract mechanisms that provide suppliers with protection from rate and price volatility to which they have exposure, and we fundamentally disagree with reasons and rationale used to support these arguments. **We do not believe it is in the IESO's remit to provide such insurance products to developers in a competitive RFP process.** Financial services providers and insurance firms develop and competitively price risk management products accessible to developers requiring them. We are troubled by the suggestion developers cannot access these products, or that if the product required by developers is unavailable through sophisticated third parties, the IESO/ratepayer should accept the transfer of risk from the developer. Our concerns with the MCIA specifically are set out in more detail below. **1. Transferring Lithium Carbonate Price Risk Through the MCIA is Not Appropriate in a Competitive RFP** Capital Power is aware that stakeholder have persistently advocated that the IESO provide a means for the transfer of risk tied to spot price movement for lithium carbonate traded on the Shanghai Metals Market from developers to the IESO/ratepayer, and Capital Power continues to consider this transfer of risk to be inappropriate. In a competitive RFP for long-term supply agreements the management of price risk attached to specific material inputs is appropriately borne by the developer, as are the risks tied to foreign exchange rates and interest rates during construction.[1] The appropriateness of the risk allocation we describe here results from the fact that the *developer* is the party contracting with the supplier. Even if the developer is exposed to input price risk through supplier terms and conditions, the IESO cannot effectively transfer input price risk to itself without effectively stepping in between the developer and its supplier.

[1] Capital Power is aware that some stakeholder may use interest rates and inflation measures interchangeably. Capital Power continues to believe CPI indexing to be appropriate, but indexing to interest rates should not be considered. Interest rates reflect central bank policy decisions, lender risk profiles, and borrower creditworthiness and should remain the risk of the developer.

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	While there may be limited circumstances (such as bilateral commercial arrangements) where this structure could be considered and tailored to commercial preferences and other trade-offs, to do so in a competitive RFP is inappropriate as it undermines competitive pressure through insuring developers against risks resulting from their contracts with third parties. **2. The MCIA is an Ineffective Risk Management Instrument** The MCIA formula indexes 25% of the supplier's **Fixed Capacity Payment** to price changes for lithium carbonate traded on Shanghai Metals Market. The IESO measures price changes by calculating the percentage change between (i) the three-month daily average in spot market prices prior to the earlier of the date on which the supplier executes a battery supply agreement, or 18 months; and (ii) the one-month average daily spot price for lithium carbonate prices prior to bid submission, otherwise referred to as the base price. It then applies a 25% factor weighting to this price change. The MCIA was included in the final version of the E-LT1 Contract without any supporting documentation or rationale to support the implicit assumption that a developer would have correlated exposure, or that a competitively bid FCP would be correlated to the as-defined spot price moves of lithium carbonate traded on the Shanghai Metals Market. The MCIA was not intended to address the risk of economy-wide macroeconomic conditions changing over the term of the agreement; it was designed to address the risk that development input costs changed between the pre-bid period and post-bid/pre-COD period. There is no evidence it accomplishes this, and we continue to believe the concept is inherently flawed. If the MCIA is included in the LT1, it imperative that it remain optional for proponents.

General Comments/Feedback

No additional comments at this time.