

# Resource Adequacy – Feedback Form

Meeting Date: September 28, 2020

<b><u>Date Submitted:</u></b>  <i>2020/10/20</i>	<b><u>Feedback Provided By:</u></b> Organization: Northland Power Inc. Main Contact: Mike Zajmalowski Email: [REDACTED]
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Following the September 28, 2020 Resource Adequacy webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following items discussed during the webinar. More information related to these feedback requests can be found in the presentation, which can be accessed from the [engagement web page](#).

**Please submit feedback to [engagement@ieso.ca](mailto:engagement@ieso.ca) by October 20, 2020.** If you wish to provide confidential feedback, please submit as a separate document, marked “Confidential”. Otherwise, to promote transparency, feedback that is not marked “Confidential” will be posted on the engagement webpage.

## Stakeholder Feedback Table

Northland Power thanks the IESO for being responsive to stakeholders by listening to previous comments made in various engagement for the need for such an engagement that defines a framework for capacity procurement. While much detail needs to be worked out with stakeholders, at a high level Northland Power supports the general framework. Northland appreciates that the IESO has acknowledged that multiple mechanisms (e.g. Capacity Auctions, Request for Proposals (RFPs) and contracts) are needed and will be used to ensure reliable and cost-effective resource adequacy and supply within Ontario’s electricity market.

IESO Requests	Stakeholder Feedback
<u>Principles to Guide the Resource Adequacy Framework Conversation</u>	
<p>The IESO proposes to use the MRP guiding principles to guide the discussion with stakeholders on the development of a high-level Resource Adequacy framework. Are there other principles that should be considered throughout this discussion?</p>	<p>The five MRP guiding principles are appropriate in this context. We must note, however, that none of the stated principles appear to address the specific concerns that gave rise to this Engagement. Namely, the original MRI framework did not contemplate the commercial realities of many resources and would therefore not succeed in securing the needed supply to meet our future system needs. The new framework must therefore take into account the real costs and operational characteristics of resources in order to be successful. To this end, we would suggest an additional principle, which could be described as Commercial Effectiveness, to recognize that goal.</p>
<u>Draft Resource Adequacy Framework</u>	
<p>Do these three capacity acquisition timeframes (commitment and forward periods) provide sufficient options for meeting the needs of your resource type?</p>	<p>While the three procurement mechanisms being discussed provide a range of options for Northland Power resources, the timing and execution (i.e the details) currently do not provide full coverage for our resources. For e.g. For Resources that are or will be participating in the capacity auction process, would benefit from expediting the resource adequacy engagement. For these resources knowing the procurement structure will provide Northland the ability to better plan our long-term business strategy.</p> <p>We would recommend the IESO implement multi-year commitments for the short-term timeframe where it contemplates Capacity Auctions. In addition, it’s</p>

	<p>not clear to Northland how the IESO will determine whether a facility based on its characteristics qualifies for the short-term to medium-term options.</p> <p>To qualify for the medium term (longer duration) commitment, an asset must demonstrate a yet-to-be-defined “material” capital investment threshold. In our opinion, this option should be made available to those facilities that require a longer duration for their commercial planning and operations regardless of their imminent expenses. This may also allow for shorter forward periods if the auction is run on a more consistent (ex annual) basis.</p>
<p>Which option(s) are most suited to your resource type?</p>	<p>Northland power develops, constructs, owns and operates wind, solar, natural gas and biomass generating facilities in Ontario. In addition Northland Power is also active on the interties. Therefore there isn't any one option that is most suited to our resource type. Depending on the asset as well as the state of the resource, whether it's an existing resource with minimal reinvestment, one that requires an overhaul or major maintenance, importing capacity from neighbouring markets or building new assets in Ontario some of the solutions proposed can be used to achieve that outcome. However the combination of options, as currently presented, do not fully consider the commercial realities of certain facilities and therefore risks permanent closures of inexpensive facilities while subsequently procuring new, more expensive resources to meet future needs.</p>
<p>Based on timing when various mechanisms are going to be available, do you see timing gaps when a resource needs a mechanism before that mechanism is ready?</p>	<p>While the three procurement mechanisms being discussed provide a range of options for Northland Power resources, the timing and execution (i.e the details) currently do not provide full coverage for our resources. For e.g. For Resources that are or will be participating in the capacity auction process, would benefit from expediting the resource adequacy engagement. For these resources knowing the procurement structure will provide Northland the ability to better plan our long-term business strategy.</p> <p>Under the mid-term options it states “Multi-year commitment, with longer forward period (up to 3-4 years)”. Given that this engagement is now starting</p>

	<p>and a framework may be developed in 2021, facilities that expire (or have expired) prior to the delivery period would require some type of bridging mechanism in order to cover operating costs until the competitive process were fully implemented.</p> <p>It's unclear from the opening session of this engagement how resources that potentially can straddle multiple time frames have the ability to participate or advocate for the term they believe will adequately provide a mechanism for them to procure sufficient capacity revenue to continue operating. Long-term process transparency is much more conducive to risk-taking than uncertain, fluctuating approaches.</p> <p>The IESO should consider bridging certain resources in Ontario now for the next several years until such time that other resources that come off contract can compete with each other in a more liquid procurement process. This will enable these suppliers to continue their operation in Ontario, thereby avoiding the cost of an expensive singular procurement should one of these suppliers decommission their facility prior to the date of the next competitive procurement.</p>
<u>Resource Adequacy Engagement Plan</u>	
<p>What needs to be considered in future engagement phases to develop the details of the mechanisms in the framework?</p>	<p>It's unclear what methodologies the IESO will apply in setting the amount of capacity that it expects to procure for each procurement term (short, mid, long). If these values are going to be unpredictable, this makes it that much more difficult for resources to make long term investments in each category if they don't know whether capacity will be procured in the next cycle of the procurement process.</p> <p>The current proposal may also be difficult to define without inadvertently creating biases between small and larger facilities. What was clear in the presentation on September 28<sup>th</sup> was that the IESO was undervaluing smaller resources for the benefit of larger resources without considering that the</p>

	<p>materiality of costs differs for a smaller resource vs. a larger one. For e.g. if a 10 MW resource has annual costs of \$500,000 and a 1000 MW resource has annual costs of \$50 million, then the IESO shouldn't discount the smaller resource and consider it to be immaterial. For that resource the costs may be very material to their overall budget.</p> <p>The IESO indicates that existing resources that have “material” re-investment costs needed to extend their capability would qualify for the medium-term option. Can the IESO define “material”?</p> <p>To qualify for the medium term (longer duration) commitment, an asset must demonstrate a yet-to-be-defined “material” capital investment threshold. In our opinion, this option should be made available to those facilities that require a longer duration for their commercial planning and operations regardless of their imminent expenses. This may also allow for shorter forward periods if the auction is run on a more consistent (ex annual) basis.</p> <p>The IESO has previously indicated and continues to state that in its planning assumptions it assume all generators in essence continue to operate into perpetuity. However the IESO should demonstrate that it appreciates the incremental costs that resources may need to recover to continue to operate a facility in a reliable way.</p> <p>It would be helpful for the IESO to articulate that it understands the series of costs and risks that generators face in operating their facilities. Standard variables like financing, O&amp;M costs, fixed fuel costs, etc. Something that demonstrates that the IESO understands the challenges these organizations face in operating these assets in such uncertain times.</p>
<p>What other areas need to be discussed with stakeholders to operationalize the framework?</p>	<p>It would be helpful for the IESO to be more explicit about how many years it's considering for multi-year commitments in auctions or RFP's. In addition, the IESO should consider setting a minimum price threshold for the procurements to</p>

	<p>clear at. This would ensure that resources are bidding in economically and not offering in a way to squeeze out other competitive resources, especially if they are receiving other financial incentives elsewhere. We can appreciate that the IESO may wish to seek the lowest cost option for ratepayers. However if resources continue to operate in this market while losing money, they will find themselves with resources that will not continue to operate in such a market.</p> <p>It would be helpful to know whether the IESO will be setting minimum or maximum volumes to be procured via the interties.</p> <p>The IESO makes general assumptions that all resources “stick around” in the years that capacity revenues are not available. It appears as though the IESO believes that facilities could easily mothball for a few years and then just turn right back on when the IESO needs them. Unless there is a clearer path for these resources to secure capacity revenue, these resources will shut down – permanently, and the IESO will find itself in a situation where it has blindly relied on these facilities to “stick around” into perpetuity, and instead will find themselves in situations where the procurement mechanisms its’ relying on are not working to secure enough capacity for Ontario’s needs.</p>
<p>What other areas need to be discussed with stakeholders to operationalize the framework?</p>	<p>Repeat question</p>