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**SEPTEMBER 23, 2021**

# Medium Term RFP Engagement

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# Agenda

- Recap of August Engagement
- Stakeholder Feedback – Key Themes
- Contract Design Considerations
- Rated Criteria Considerations
- Next Steps

# Purpose

The purpose of this meeting is to address high level feedback received in response to the August Medium Term RFP (MT RFP) engagement kick-off, to provide further detail on proposed elements of the MT RFP and contract design and to seek stakeholder feedback on those design proposals.



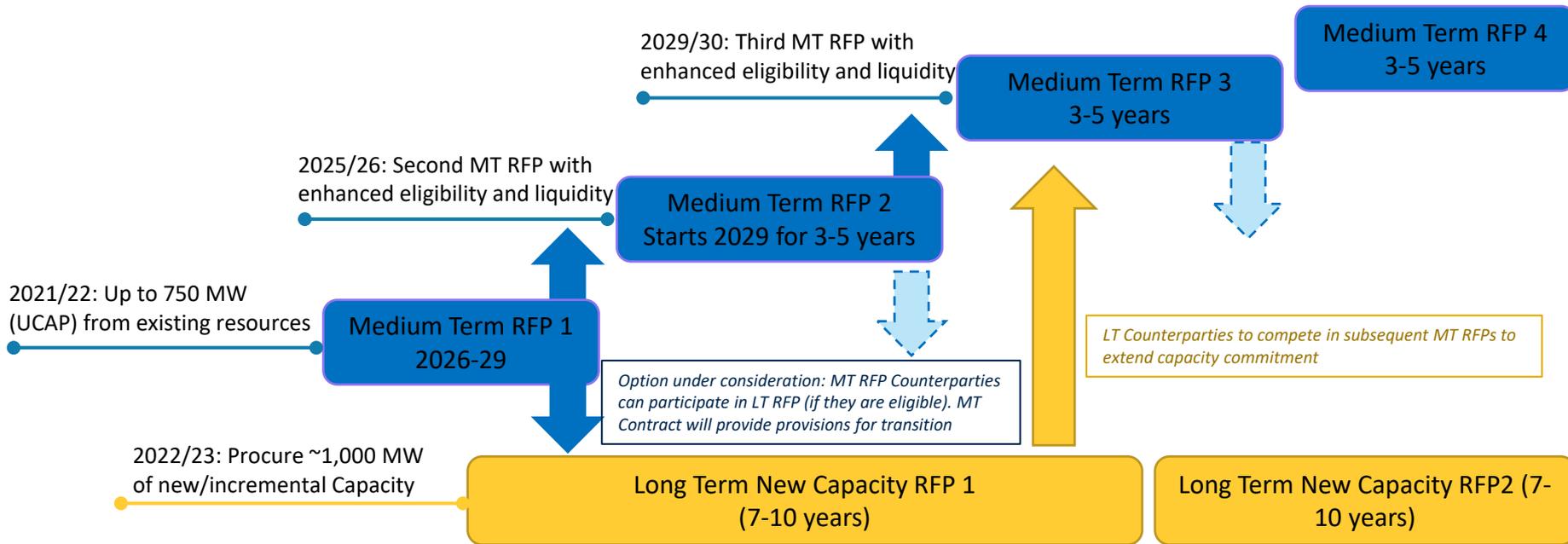
# Recap of August Engagement

# Recap

- MT RFP represents IESO's transition to a **product/service** based acquisition framework that is centered on meeting reliability needs cost-effectively
- The IESO communicated that this procurement is the first in a series of procurements that will procure Qualified Capacity from existing resources on a **UCAP\*** basis for a **three-year commitment** starting on May 1, 2026
- Proposal prices will be submitted as \$/ MW-month in UCAP, and the pricing evaluation in the RFP will be on a "**pay-as-bid**" basis
- The evaluation will include a series of **rated criteria** that assess system value; while the rated criteria will impact the evaluation, they will not impact ultimate contract pricing

\*UCAP: Unforced Capacity

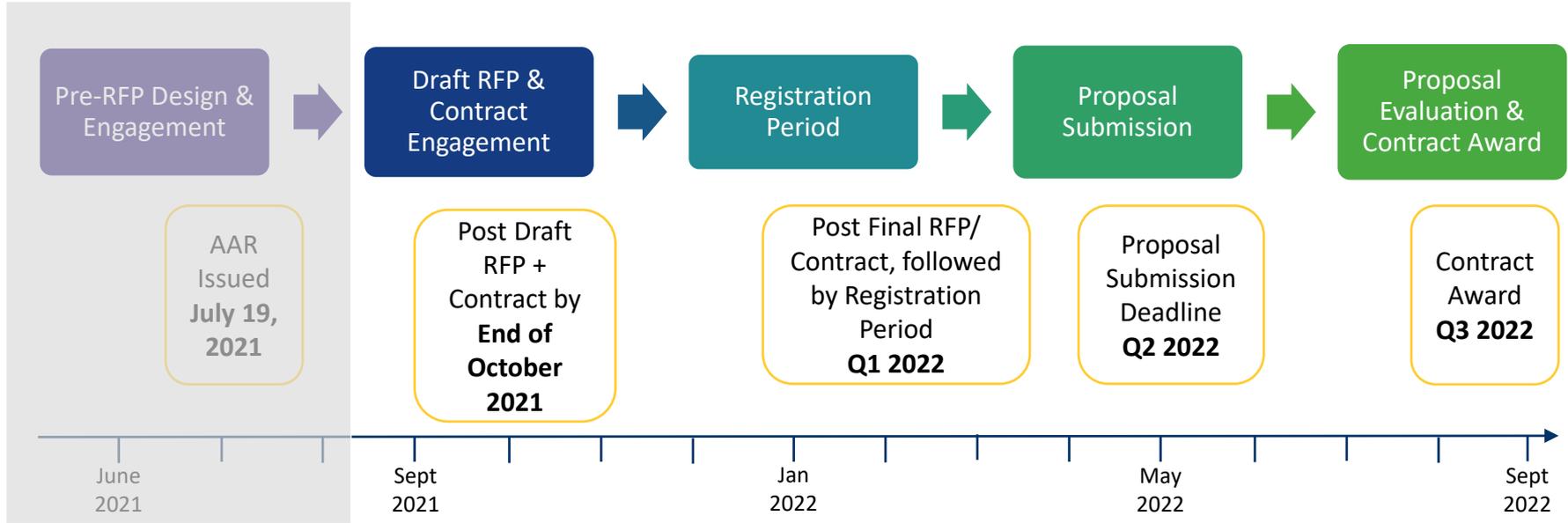
# Cadenced RFPs and Linkages



Capacity Auction as Short-term Balancing and Bridging Mechanism

Timelines are illustrative

# Proposed MT RFP Timeline



# Proposed Registration Process

- In Q1 2022, the IESO will open a registration period for prospective proponents to express interest in participating in the MT RFP
- Prospective proponents will submit a nominal fee in order to become Registered Proponents and the IESO will provide them with their Qualified Capacity (in UCAP) so that they can effectively structure their proposals in advance of proposal submission
- The Registration stage also provides the IESO with an early indication of the level of competition it can expect ahead of finalization of the RFP



## Stakeholder Feedback – Key Themes

The following slides provide an overview of key themes from stakeholder feedback heard during the August engagement session. The IESO plans to formally respond to written feedback from the August and September engagements in October.

# Key Theme – Resource Eligibility

## Stakeholder Feedback

- Why is the IESO restricting eligibility to only existing resources ?

## IESO Response

- The MT RFP is targeted to recommit existing resources to maintain system reliability needs in the mid-2020s. The limited eligibility is part of the transition of operationalizing the Resource Adequacy framework. For clarity, the RFP will allow for certain types of facility updates.
- Future MT RFPs will have expanded eligibility to drive greater competition. New resources will be eligible to participate in the Long-Term (LT) RFP. The IESO will be providing greater detail on the first LT RFP later this fall.

# Key Theme – Contract Bridging 1/2

## Stakeholder Feedback

- Will resources be able to participate in the Capacity Auction (CA) in the year in which their contract expires without first terminating their contract?

## IESO Response

- Proponents will be able to participate in the auction and, if successful, will have the opportunity to terminate their existing contracts early to align with CA obligation periods, subject to contract provisions.
- The IESO will ensure that bridging is done in a manner that ensures fair competition in the Capacity Auction.

## Key Theme – Contract Bridging 2/2

### **IESO Response continued from previous slide**

- The IESO is also exploring opportunities to allow for resources to participate in the CA during the commitment period in which their contract expires. The counterparty will be subject to the provisions in their contract that address the CA revenues during any overlapping period.
  - This would require Market Rule amendments

# Key Theme – Rated Criteria

## **Stakeholder Feedback**

- How will the rated criteria be determined and how will they interact with the proposal bid price?

## **IESO Response**

- The draft MT RFP will be transparent on the rated criteria and the evaluation methodology. Rated criteria will impact evaluation, but not ultimate contract pricing. Further details on the proposed rated criteria are provided in this presentation.



# Contract Design Considerations

## Contract Overview

- The first MT RFP proposes to offer a 3 year commitment from May 1, 2026 to April 30, 2029
  - There are a number of contracts expiring in 2029 and aligning the contract dates will drive greater competition for cost-effective outcomes. The term length for subsequent MT RFPs will be between 3 and 5 years, as per the Resource Adequacy framework
- The proposed contract will be aligned with the post Market Renewal Program (MRP) market and will rely on those mechanisms, including the Day-Ahead-Market (DAM) to drive efficient outcomes

## Contract Overview - continued

- As previously indicated, the MT RFP is proposed to be a capacity style contract that will pay resources their submitted **bid on a \$/MW-month** basis, regardless of technology
- Resources will be entitled to retain any other revenues they can earn, such as energy, ancillary services revenues and/or the monetization of environmental attributes

# Proposed UCAP Product

- The proposed contract will specify seasonal UCAP values for summer months (May-October) and winter months (November-April) to more accurately reflect resource characteristics
  - This approach is consistent with the CA and reflects the historical output of each resource across summer and winter commitment periods
- However, to ensure the IESO meets its system needs as a summer peaking province - as indicated in the Annual Acquisition Report (AAR) - the **“up-to 750 MW”** target will be based on summer UCAP values

# Proposed Form of Contract for Dispatchable and Non-Dispatchable Resources

- In order to enable participation for different resource types in the MT RFP, the IESO is working towards designing a standard form of capacity contract
- As such, the IESO proposes a form of contract with two distinct variations for dispatchable resources and non-dispatchable resources
  - **Dispatchable\***: Resources will be subject to must-offer obligations aligned with the Capacity Auction
  - **Non-Dispatchable**: Resources will be subject to a Minimum Capacity Factor (MCF) to ensure resources provide capacity corresponding to what they are being paid for

\*Fully dispatchable (i.e. registered facilities that are not registered as *intermittent* or *self-scheduling* resources. For clarity, this does not include variable generators)

# Proposed Performance Obligations

- The IESO proposes that successful resources will be obligated to make their capacity available either through offers into the energy market or through maintaining a monthly minimum capacity factor

## Dispatchable\*

- Must offer requirement where quantity of offers into the Day-Ahead Market for **5x16 hours** would need to be at least equal to **[0.95x]** of Seasonal Qualified Capacity

## Non-Dispatchable

- Must maintain a monthly minimum capacity factor (MCF) during **5x16** hours that is at least equal to **[0.95x]** of the capacity factor reflected in the ratio of their Seasonal Qualified Capacity/Nameplate capacity (the “QC Ratio”)

\*Fully dispatchable (i.e. registered facilities that are not registered as *intermittent* or *self-scheduling* resources. For clarity, this does not include variable generators)

# Proposed Dispatchable\* Resource Performance Charges

- The IESO proposes that if in any Settlement Month the average quantity of offers in 5x16 is less than **[0.95x]** the **Seasonal Qualified Capacity**, Market Participants will incur the following charges:

$$\text{Non-Performance Charge} = \text{Difference (in MW) X Capacity Payment X Non-Performance Factor}$$

Charges are expected to be based on the following CA non-performance factors

Month	Factor	Month	Factor
January	2.0	July	2.0
February	2.0	August	2.0
March	1.5	September	2.0
April	1.0	October	1.0
May	1.0	November	1.0
June	1.5	December	1.5

\*Fully dispatchable (i.e. registered facilities that are not registered as *intermittent* or *self-scheduling* resources. For clarity, this does not include variable generators)

# Proposed Non-Dispatchable Resource Performance Charges

- Similarly, if in any Settlement Month the Capacity Factor for a Non-Dispatchable Facility during 5X16 is less than **[0.95x]** of the **QC Ratio**, resources would incur non-performance charges
- To help oversee compliance, non-MPs will be required to provide the IESO with access to revenue-quality meter data

Charges are expected to be based on the following CA non-performance factors

Month	Factor	Month	Factor
January	2.0	July	2.0
February	2.0	August	2.0
March	1.5	September	2.0
April	1.0	October	1.0
May	1.0	November	1.0
June	1.5	December	1.5

**Non-Performance Charge = Shortfall in capacity factor in % X Capacity Payment X Non-Performance Factor**



# Rated Criteria Considerations

# Overview

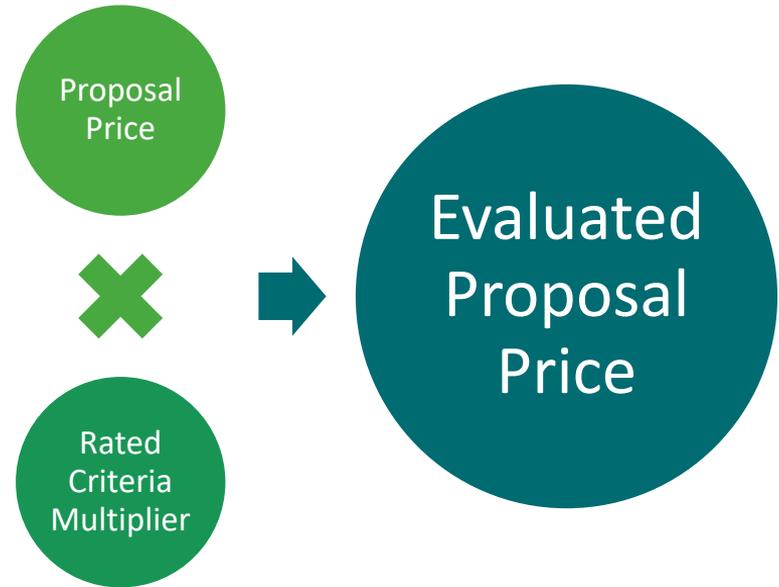
- It is proposed that the MT RFP evaluation process include rated criteria that assess characteristics that provide system and operational value
- The proposed rated criteria score will impact the price evaluation and proposal ranking stage, but will not impact the ultimate capacity payment in the contract

# Proposed Mandatory vs Rated Criteria

- Mandatory Criteria must be satisfied by all proponents in order to participate in the MT RFP, whereas Rated Criteria will assign proponents a score based on their relative system value
- **Proposed Mandatory Criteria:**
  - Proponent owns an existing generation facility that either has or in the past has held a contract with the IESO, the OPA or the OEFC, or;
    - Operates as a merchant facility, but has previously been registered with the IESO as a Registered Facility under the Market Rules
  - Proponent has land tenure and ownership of all relevant assets
  - Proponent possesses all necessary permits and connection/market participation agreements required for operation

# Recap - How Rated Criteria Works

- Proponents will submit pricing with their proposal reflected in a dollars per MW-month of their qualified capacity (\$/MW – month UCAP)
- If a proposal successfully passes completeness and mandatory checks, it will be assigned points based on the rated criteria in the RFP
- These rated criteria points will equate to a price reduction multiplier to be used for comparison/selection purposes only (no impact on price paid to successful candidates)



# Proposed Rated Criteria

- The following groupings of proposed rated criteria have been contemplated for the MT RFP and aim to recognize resources that can provide the most value to the grid

## Location

There are areas of the province (i.e. load growth areas) where resources are most needed

## Dispatchability

Awards having full visibility or resources that can meet a 5-minute dispatch signal

## Duration of Service

Awards the ability to provide 4+ consecutive hours of energy

## Operating Reserve

Awards resources that are enabled to provide either 10S, 10N, or 30 minute Operating Reserve

# Proposed Rated Criteria Scoring Overview

- The IESO proposes developing a scoring methodology for Rated Criteria that assigns values in the following manner:

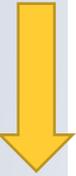
- Potential exit of resource would have significant impact
- Moderate impact as a result of resources exit
- Minimal impact as a result of resource exit
- No impact as a result of resource exit



**Location**

**Dispatchability**

- Dispatchable with quick-start capability
- Dispatchable
- Intermittent resource (not fully dispatchable)
- Non-dispatchable



- Unlimited energy duration
- Energy duration > 4 Hours < Unlimited
- Non-MP and/or intermittent resource



**Duration of Service**

**Operating Reserve**

- Enabled to provide either 10N, 10S or 30 minute Operating Reserve
- Not-enabled to provide Operating Reserve





# Next Steps

## Next Steps

- The MT RFP engagement agenda for the **October 2021** meeting is expected to include:
  - Responses to stakeholder feedback
  - Further information on contract design, proposal evaluation and criteria
  - Further detail on UCAP in the context of the MT RFP and technology specific methodologies
- The IESO intends to share a draft RFP for stakeholder comment by the end of October
- During Q4, the IESO intends to begin sharing preliminary information on the LT RFP

# Stakeholder Feedback

Stakeholders are invited to submit questions and provide general feedback on the information presented regarding the Medium-Term RFP

Specific areas of design that the IESO is seeking feedback on include:

1. Contract design considerations as contemplated on slides #15-22
2. The overview of proposed rated criteria on slides #26-28
3. Practical considerations for uprates that may be eligible in the MT RFP

Please provide all written feedback to **engagement@ieso.ca** by October 14 using the feedback form on the engagement webpage

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# Thank You

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