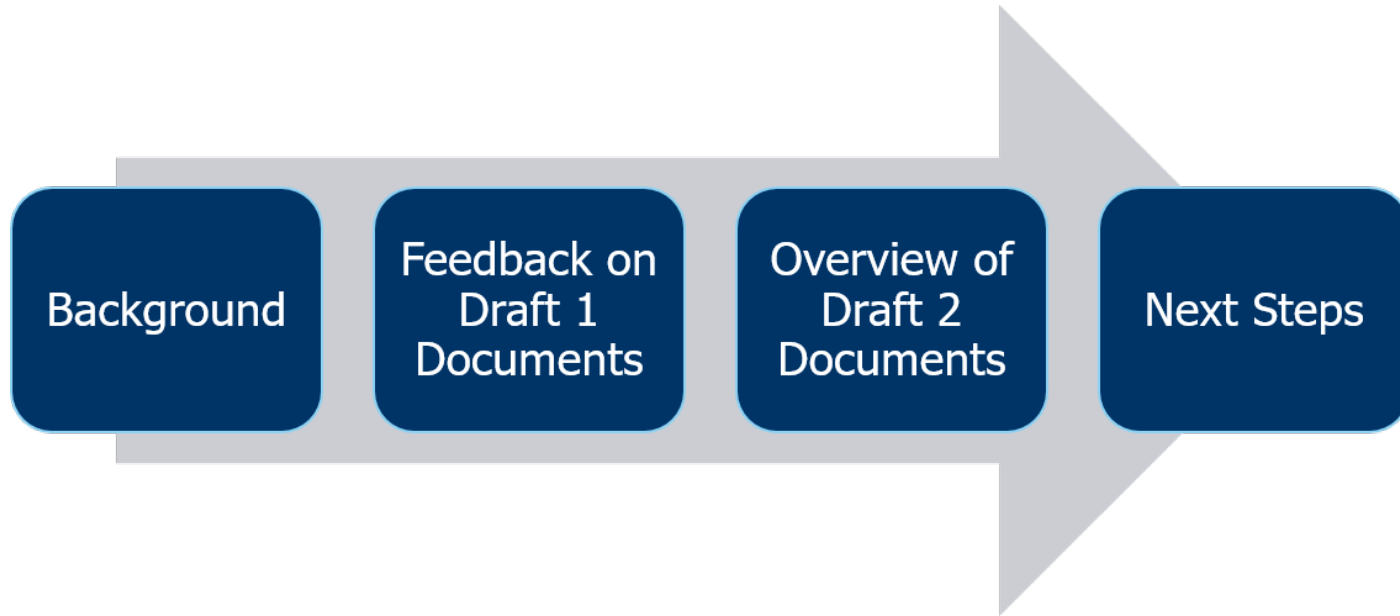

SEPTEMBER 19, 2023

Overview and Q&A Session on the Small Hydro Program (SHP) Draft Documents

Agenda



Purpose

- Inform the broader community on the SHP and progress to date
- Highlight how stakeholder feedback informed Draft 2 of the SHP Documents
- Present the SHP Documents available for review and comment
- Request focused feedback on the Draft 2 Documents
- Offer an opportunity for Q&A

Background: Ministry Direction

- The IESO received Ministerial direction in January 2022, to design a Small Hydro Program (SHP) for existing facilities and provide a report back by July 1, 2022
- In response to the IESO's report back, a government letter provided to the IESO in October 2022, asked the IESO to consider additional aspects in the program design and to provide draft program rules and contracts for the SHP by December 31, 2022
- The IESO recently received Ministerial direction in August 2023, to launch the Small Hydro Program by the end of 2023



Background

Background: SHP within the Resource Adequacy Framework

- The IESO evolved its approach to meeting system needs through the development of the Resource Adequacy Framework
- Under this framework, the IESO is moving towards a system needs based perspective to resource adequacy
- The SHP is the first program to be developed under the Resource Adequacy Framework
- As per the Ministerial directive, the SHP is to “be designed to provide value for ratepayers while providing a reasonable revenue stream for facilities to continue operating”

Resource Adequacy Mechanisms
Capacity Auction
Medium-Term Commitments
Long-Term Commitment
Programs
Bilateral Negotiations

Background: SHP Engagement (1 of 2)

The IESO engaged in dialogue with the OWA and its Board Task Force through meetings and discussions since the initial Directive in 2022.

In addition, the IESO:

- Met with stakeholders in the Spring of 2022 to discuss high-level design goals and concepts
- Hosted a Technical Session in May 2022 for in-depth discussion on program design
- Held broad engagements in the spring and summer of 2022

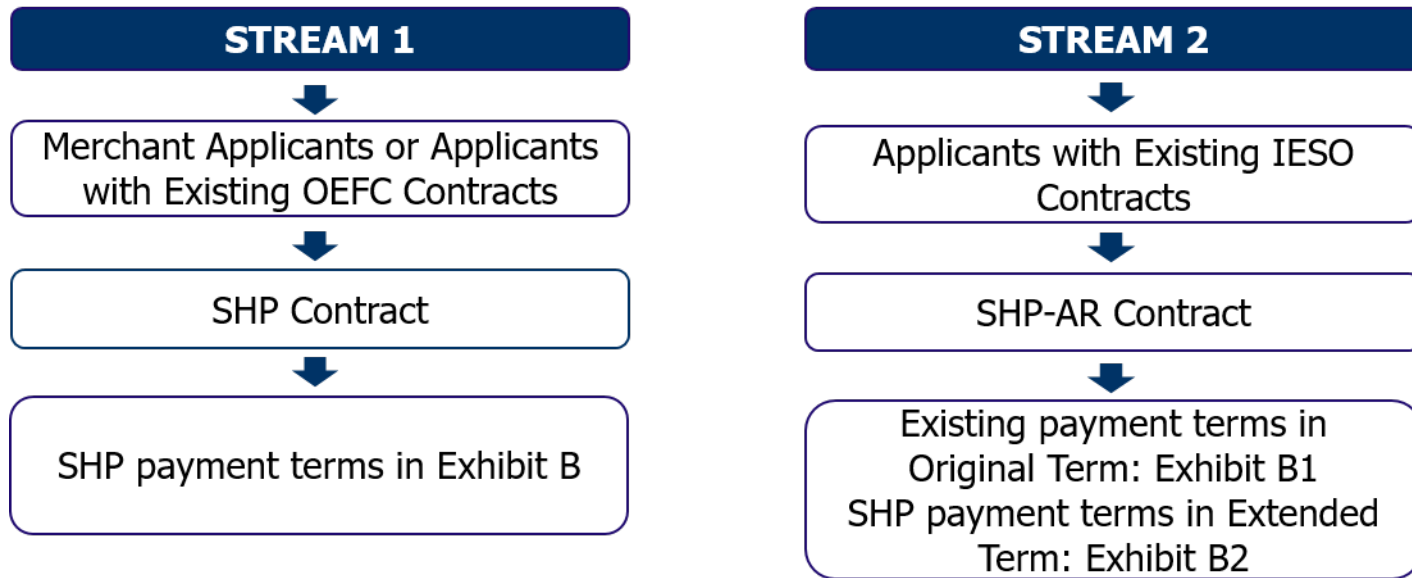
Background: SHP Engagement (2 of 2)

More recently, the IESO:

- Met with stakeholders in March and June of 2023 to continue the discussion on program design at a more detailed level
- Hosted a Q&A session at the beginning of August 2023 on the initial program documents and invited feedback on the documents

Background: SHP Form of Contract

- The SHP Contract is based on the HCI Contract. There are two Streams of the Contract.





Small Hydro Program: Summary of Stakeholder Feedback that Informed Draft 2 Documents

Response to Feedback

- A summary of feedback and the IESO response is available on the [SHP Engagement Webpage](#)
- There were several areas of the initial SHP Documents that were revised based on feedback. This includes:
 - Applicants with OEFC contracts are eligible to apply (section 1.3, 2.1, 6.1 of the Rules)
 - The OEFC Contract must be terminated prior to the Contract Date

SHP Response to Feedback (2 of 5)

SHP Document revisions based on feedback (continued):

- Upgrades are now enabled during the Original Term for HCI Contract holders (section 6.11 of the Rules, section 2.7 and Exhibit H)
 - Facilities that Upgrade during the Original Term will be compensated using a blended rate. The blended rate will be based on the capacity of the Upgrade or Expansion relative to the total capacity. The Upgraded capacity will receive the Exhibit B-2 Contract Rate and the original capacity will receive the Exhibit B-1 Contract Rate.
 - Example: SHP Facility with Contract Capacity of 5MW Upgrades to 7MW during the Original Term. The Contract Price would be calculated as: $\text{Blended rate} = (5\text{MW}/7\text{MW}) \times \text{Exhibit B-1 Rate} + (2\text{MW}/7\text{MW}) \times \text{Exhibit B-2 Rate}$
 - Suppliers will retain federal investment tax credits in relation to Upgrades or Expansions only. IESO will own all other Environmental Attributes associated with the Facility, including in respect of Upgrades and Expansions, consistent with section 2.11(a) of the Contract. New language will be added to the final Program Documents to clarify this approach.

SHP Response to Feedback (3 of 5)

- SHP Document revisions based on feedback (continued):
 - Clarification around MRP provisions (section 1.5(b) of Contract)
 - Provisions related to expenses around changes to the Lakes and Rivers Improvement Act will be maintained for HCI Contract holders during the Original Term (section 1.6 of Contract).
 - Expenses for approved costs relating to the registration and transfer of Environmental Attributes will be covered in the Contract (section 2.11(c) of Contract)

SHP Response to Feedback (4 of 5)

- Areas of the initial SHP Documents revised based on feedback (continued):
 - Applicants that lease sites are required to maintain the lease (section 3.2(a)(ii) of the Rules)
 - The time to accept the Contract or Amending Offer has been extended to 60 Business Days (section 5.1(b) of the Rules)

SHP Response to Feedback (5 of 5)

- After considering feedback, there were areas of the initial SHP Documents that have remained as drafted, including the:
 - Exclusion to eligibility of joint ventures, behind the meter facilities and, as per the August 2023 Directive, aggregated facilities
 - IESO maintaining the right to change or cancel the program
 - Minimum criteria for upgrades



Small Hydro Program Documents

SHP Documents (1 of 2)

- The SHP Documents posted on the engagement [website](#) for your review and comment include:
 - SHP Rules – September 2023
 - SHP-AR Contract – September 2023
 - SHP Contract – September 2023
 - SHP Application Form – September 2023

SHP Document Overview

Rules

- Provide an overview of the program
- Outlines eligibility, application process, etc.

Contract

- Legally binding agreement – once an SHP Contract is entered, the Rules are of no force or effect
- Outlines obligations and specifies what happens under various conditions

SHP Documents – New or Revised Content

The table below can be used as a reference for some of the areas that have been drafted or re-drafted since the initial version of the documents was shared with the community:

SHP Feature	Rules	Contract
OEFC Eligibility	1.3, 2.1, 6.1	
GRC Adjustment Mechanism		1.13 & Exhibit B-2: 1.3 & 1.5
Upgrades in Original Term for existing HCI contract holders	6.11	2.7 & Exhibit H
Program Application	Section 4	
Payment During Original Term for HCI, RES, RESOP, HESOP		Exhibit B-1
Payment During Extended Term/SHP Term (Negative Pricing, Adder for Facilities 1MW or Less, etc.)	6.7, 6.8	Exhibit B-2
Management of Secured Lender Agreements	4.3(b), 5.1(b)(ii)	Exhibit G
Indigenous Adder	Reference removed	Reference removed

SHP Documents – New Content

Also available on the website for review and feedback are:

- The SHP Contract
 - Relevant for Stream 1 Applicants (Merchant and OEFC Contract holders)
 - The SHP Contract is almost entirely identical to the SHP-AR Contract: the payment terms in Exhibit B of the SHP Contract are the same as the payment terms in Exhibit B-2 (the Extended Term) of the SHP-AR Contract
- The SHP Application Form (a Prescribed Form)
- Other Prescribed Forms (Metering Plan, LDC Authorization Form, Secured Lender Consent and Acknowledgement Agreement (SLCA), etc)



Next Steps

Next Steps: Focused Feedback

Stakeholders have an opportunity to provide feedback on Draft 2 of the SHP Documents, with a focus on the elements that have been updated since Draft 1, including:

- OEFC Eligibility
- GRC Adjustment mechanism
- Upgrades in Original Term for HCI Contract holders
- Application Form & Other Prescribed Forms
- SHP Contract
- Rules related to Secured Lender Agreements
- Payment terms in Exhibit B1 & B2 of the SHP-AR Contract & Exhibit B of the SHP Contract

Feedback will be incorporated into the final version of the SHP Documents.

Next Steps: Schedule

Activity	Date
Posting of Draft 2 of Program Documents	Complete
Engagement on Draft 2 Documents	In Progress
Feedback on Draft 2 Documents	Due September 26, 2023
Posting of Final Documents (subject to Board Approval)	November
Anticipated Program Launch	December

- Submit feedback to engagement@ieso.ca using the posted feedback form

Q & A

Thank You

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Appendix A: SHP Design Summary

SHP Design Overview (1 of 3)

Eligibility

To be eligible for the SHP, a facility must have:

- Nameplate capacity less than or equal to 10 MW
- Direct connection to distribution or transmission system
- Existed and in operation before January 27, 2022
- Existing contract with the IESO at the time of application (that expires before 2043), OR be uncontracted, OR have an existing contract with the OEFC

SHP Design Overview (2 of 3)

Design Element	Design
SHP Contract Price	<ul style="list-style-type: none">• Starting price of \$94.67/MWh in 2023
Escalation	<ul style="list-style-type: none">• SHP Contract Price to be escalated annually using a factor of 60%• Escalation rate to be based on the Consumer Price Index
Treatment when Wholesale Price is Zero or Negative	<ul style="list-style-type: none">• When the Market Price is zero or less (negative), the payment will be reduced to 25% of the SHP Contract Price for that hour• The number of hours that this treatment will apply will be capped at the first 438 hours (5% of hours) per year
Market Price	<ul style="list-style-type: none">• Before Market Renewal Program (MRP) implementation, the market price will be HOEP• After MRP implementation, the Market Price will be the day-ahead OZP for non-market participants and day-ahead LMP for Market Participants

SHP Design Overview (3 of 3)

Design Element	Design
Environmental Attributes	<ul style="list-style-type: none">• Environmental Attributes vest with IESO
1 MW or Less Adder	<ul style="list-style-type: none">• Facilities with nameplate capacity of 1MW or less qualify for 5% adder
Expansions & Upgrades	<ul style="list-style-type: none">• Facilities can upgrade or expand (nameplate must remain below 10 MW) during the Extended Term, the Original Term for HCI Contract holders, or the entire SHP term for Stream 1 Applicants• Contract payments will extend to the amended capacity• There are no additional premiums for upgrades

Overview of Original & Extended Payment Terms

For existing IESO Contracts (HCI, RES 1, RESOP, HESOP) that successfully apply to SHP:

