

Feedback Form

Overview and Q&A Session on the Small Hydro Program (SHP) Draft Documents: September 19, 2023

Feedback Provided by:

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Following the September 19, 2023 engagement webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the items discussed during the webinar. The webinar presentation and recording can be accessed from the [engagement web page](#).

Please submit feedback to engagement@ieso.ca by end of day Tuesday, September 26, 2023. 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.

SHP Draft Documents

Topic	Feedback
<p>What feedback do you have related to OEFC eligibility and the requirement to terminate the OEFC Contract prior to the Contract Date?</p>	<p>None.</p>
<p>What feedback do you have related to the GRC (Gross Revenue Charge) Adjustment mechanism?</p>	<p>PUI supports the concept of the Gross Revenue Charge Adjustment mechanism as government decisions to revise the GRC or to replace the GRC with a different tax mechanism are out of the control of generators.</p>
<p>What feedback do you have related to Upgrades & Expansions being enabled for those in the SHP that previously held HCI Contracts?</p>	<p>PUI agrees that upgrades and expansions should be enabled within the original term of HCI contract and throughout the term of an SHP Stream 1 contract. PUI does not agree with the proposed threshold for eligibility (lesser of 50% or 1MW increase). We strongly recommend that the eligibility for upgrades and expansions be consistent with regulations for the federal Clean Technology and Clean Electricity Investment Tax Credits to encourage and enable optimization of production from existing hydroelectric facilities. We remain disappointed that the SHP contract will not provide an adder or incentive to encourage upgrades and expansions, as initially directed by the Minister. We strongly believe that such an adder is necessary to support the significant capital investment associated with major upgrades and expansions. In the absence of such adders, redevelopment of our 3.9 MW Stan Adamson Powerhouse and expansion of our 10 MW London Street GS would not have been economically viable. Furthermore, PUI has several other hydro facilities over 100 years old that require major upgrades. While we appreciate that the IESO will include language to allow generators to retain federal Investment Tax Credits ("ITCs"), we wish to note that ITCs for non-taxable entities, such as municipal generators and indigenous communities, the maximum ITC available is 15% of eligible costs, subject to stringent labour requirements (may be reduced to 5% if unable to meet these requirements), and are unlikely to be adequate to support major upgrades and expansions.</p>

Topic	Feedback
<p>What feedback do you have related to Exhibit B1 of the draft SHP-AR Contract?</p>	<p>PUI notes that Exhibit B1 includes a requirement for Suppliers to repay 80% of the revenues from Future Contract Related Products less the Approved Incremental Costs associated with the sale, supply, or delivery of such Future Contract Related Products. We recommend that Suppliers be required to repay 50% of the revenues from Future Related Products to the Supplier to adequately incent Suppliers to pursue such additional revenue streams.</p>
<p>What feedback do you have on the draft SHP Contract?</p>	<p>PUI notes that Section 6.1 (l) of the draft contract (Representations of Supplier) indicates that "As of the date hereof and for throughout the Term, the Supplier will own or have the right to lease the Facility for a term that expires on or after the Termination Date." PUI notes that leasehold tenure for waterpower facilities located on provincial or federal Crown land is issued through a form of waterpower lease agreement which is typically a "rolling lease" with periodic renewals or lease extensions that may occur once or more during the term of the SHP Contract. Accordingly, this representation should be revised to take the natural expiry and renewal of existing leases into account. Language such as "As of the date hereof and for throughout the Term, the Supplier will own or lease in good standing the property upon which the Facility is located". PUI notes that Section 3.2(a)(ii) of the Program Rules incorporates language to this effect while Section 6.4 of the Program Rules aligns more with the representation and warranty set out in the draft LT1 Contract, and should be amended to be consistent with Section 3.2(a)(ii).</p>

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<p>What feedback do you have related to Exhibit B2 of the draft SHP-AR Contract or Exhibit B of the draft SHP Contract?</p>	<p>PUI notes that Exhibit B2 is structured as a contract for differences with the market price of energy deducted from the SHP and SHP-AR contract payments. This differs from Exhibit B1 which is not a contract for differences, but includes some price adjustments that are consistent with a contract for differences (i.e. Type 1 HCI-TX facilities registered in the IESO Markets, and Type 2A, HCI-DX facilities greater than 5 MW non registered in the IESO Markets, include adjustments during negative pricing periods). We are requesting clarity on: (i) what additional settlement mechanism needs to be put in place for Suppliers to obtain market revenues, and; (ii) whether this additional settlement mechanism will require Suppliers to become market participants? We are concerned that requiring small scale generators to become market participants places an undo and unnecessary cost burden upon these generators, and Exhibit B2 should include a settlement process for DX connected facilities under 5 MW that is not based on a contract for differences and does not require these facilities to become market participants (if this is a requirement under a contract for differences).</p>

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<p>What feedback do you have on the draft Application Form?</p>	<p>We are concerned that the IESO is requesting and using Nameplate Capacity as a basis of eligibility for the SHP program. The SHP Contract defines Nameplate Capacity as "Nameplate Capacity means the manufacturer's total installed rated capacity of the Facility to generate Electricity". The Application Form Checklist requires all Suppliers to provide evidence of the Facility's Nameplate Capacity "consisting of a photograph of the actual manufacturer's actual rated nameplate capacity on each hydroelectric turbine". First, nameplate capacity may not be available for many existing turbines (nameplate not existing or severely corroded). Secondly, the actual output of the turbines may vary significantly from the nameplate capacity due to past turbine modifications or changes in site operating conditions. Thirdly, in the absence of turbine nameplate capacity, the use of generator nameplate capacity may overstate actual installed capacity as generators are often oversized to provide a factor of safety, and often require a power factor adjustment. We recommend that the IESO adopt the current Contract Capacity for Stream 2 facilities, and/or use 5-year historic output or an IE to validate the actual output to establish the Contract Capacity for Stream 1 and, if required, Stream 2 facilities.</p> <p>We do not feel it is necessary to include Item 68 (Facility Overview) as environmental licenses and permits are to be provided within Item 70, and Suppliers are required to represent that they are operating their facilities in accordance with applicable permits, licenses and regulations.</p>
<p>What feedback do you have on the draft Prescribed Forms?</p>	<p>None.</p>
<p>What feedback do you have related to Rules related to Secured Lender Agreements?</p>	<p>We will require additional time to consult with our secured Lender on this matter. Generally, the rules related to Secured Lender Agreements should be consistent with past programs and not place any new restrictive requirements or obligations upon Secured Lenders.</p>

General Comments/Feedback

- As per the OWA, we would appreciate an opportunity to discuss with the IESO the definition and use of the term “Installed Capacity” (as referenced in the Minister’s Letter and Directive) within the Program Rules and Contract Structure. As previously noted, the use of Nameplate Capacity to determine eligibility and possibly Contract Capacity does not appropriately reflect the “Installed Capacity” of a Facility, and in some cases, such information may not be available. The intent of defining “Installed Capacity” for the purposes of the Contract should be to determine what a particular facility is actually capable of generating in all but exceptional circumstances. We recommend an approach that is based on historical (5 years) generation to the 98th percentile of output as this information is readily available through existing metering data, or the use of an IE to validate the “Installed Capacity”.