

IESO MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

From: JoAnne Butler, VP, Market and Resource Development

Date: February 23, 2015

Subject: NUG Framework Assessment

Information Item

On December 19, 2014 the Minister of Energy issued a direction (the “2014 NUG Direction”)¹ that instructed the Ontario Power Authority (“OPA”, now the IESO) to suspend procurement activities related to the recontracting of Non-Utility Generator (“NUG”) facilities and reassess the framework under which NUGs are recontracted in Ontario (the “NUG Framework Assessment”).

This NUG Framework Assessment is to include a review of supply and demand forecasts to determine potential future system needs, if any, and whether NUGs could contribute to meeting them. The assessment will also include a review of potential mechanisms for maintaining NUG capacity in the future should a need be identified.

The 2014 NUG Direction requires the IESO to provide a report back to the Minister by no later than June 1, 2015. Following the review of this report, the Minister is expected to issue further direction concerning the future of NUG contracting in Ontario.

As part of fulfilling the requirements of the 2014 NUG Direction the IESO has established an outline of the assessment which is attached as Appendix A. The IESO welcomes stakeholder feedback on this outline and may undertake further stakeholder activities as necessary as the assessment progresses.

For reference, a brief history of the NUG procurement is also included as Appendix B.

¹ 2014 NUG Direction:

<http://www.powerauthority.on.ca/sites/default/files/NUG-direction-Dec-19-2014.pdf>

APPENDIX A – Proposed Framework Assessment Outline

1. Introduction

- Review of NUG directives and NUG procurement history to date

2. Scope and Principles

- Define the scope of the assessment
- The assessment, and resulting recommendations, will be guided by the fundamental principle that the IESO will seek to ensure system reliability while minimizing costs over the long term.
- A number of factors will need to be taken into consideration when applying this principle; including:
 - *System flexibility (minimizing short term costs vs. maintaining longer term options)*
 - *Facilitating market evolution (e.g. future capacity auction or capacity exports)*
 - *Environmental impacts*
 - *Local economic impacts*

3. Assessment of System Needs

- Forecast of future system needs (e.g. capacity, energy, operability, geographic considerations, etc.)

4. Options to Address Identified System Needs

- Resource options for meeting identified system needs
- Value proposition of NUGs vs. other resource options

5. Review of Potential Options to Facilitate the Continued Operation of NUG Facilities

- Identify and evaluate the pros and cons of potential mechanisms.
- Mechanisms could include:
 - *NUGs participate in the capacity auction currently being developed by the IESO*
 - *Continue existing process, enter into new contracts*
 - *Create a competitive RFP procurement to allow for price competition*

6. Recommendation

- Provide recommendations to Minister to inform a potential future direction

APPENDIX B – NUG Procurement Background:

- On November 23, 2010 the Minister of Energy issued a direction to the OPA (the “2010 NUG Direction”)². This directive instructed the OPA to engage in negotiations for new contracts for NUG facilities upon the expiry of their existing OEFC contracts. The directive specified that the OPA is only required to enter into new contracts where the terms of the new contract would satisfy the directives requirements. One of the fundamental requirements being that new contracts must provide value to ratepayers.
- In response to this direction the IESO successfully entered into new contracts with over 550 MWs of NUG generation from facilities representing a diverse range of generation technologies and geographic locations.
- Through the course of negotiations there were certain NUG facilities whose owners believed that the offers made by the OPA did not meet their needs and as such terms for new contracts for these facilities could not be reached. Going forward, the owners of these facilities may be chose to operate their facility on a merchant basis, temporarily lay-up the facility, decommission the facility, or explore other options that may be available to them as they believe is most appropriate for their business objectives.
- There are ~550 MWs of capacity from NUG facilities that will be coming off OEFC contract between 2017 and 2022. Additionally, ~175 MWs of NUG capacity has, or will have, their OEFC contracts expire without reaching terms for a new contract with the IESO under the original procurement regime. In total this ~725 MW of NUG capacity will be considered during the course of the NUG Framework Assessment.

² 2010 NUG Direction:

http://www.powerauthority.on.ca/sites/default/files/new_files/about_us/pdfs/doc20101123173916.pdf