

IESO BUSINESS UPDATE

To: Stakeholder Advisory Committee

From: JoAnne Butler, VP, Market & Resource Development

Date: July 31, 2015

Subject: Floor Price Review

Information Item

After the implementation of floor prices determined through the stakeholder engagement Renewable Integration Initiative in 2013, the IESO committed to assess the floor prices following a period of market experience. The IESO commissioned Navigant Consulting to complete such a study and initiated the Floor Price Review stakeholder engagement initiative in June 2015. The first stakeholder meeting was held on July 17 to review Navigant's research on the marginal cost of wind and solar photovoltaic electricity generation, and the IESO's analysis on the impact of changing the floor price for transmission-connected variable generators consistent with Navigant's findings.

Navigant's research included interviews with other jurisdictions including ISOs, wind and solar owners/operators, equipment OEMs, and reviews of available literature on the subject. The research informed the development of estimates for the marginal costs of electricity production by wind and solar under various conditions and curtailment scenarios. The estimates of marginal costs for partial curtailment of wind and solar were determined to be above the current renewable floor price.

Additional analysis was performed by the IESO on the impact of implementing a floor price for wind and solar at a level consistent with Navigant's findings. The analysis assumed that the flexible portion of wind and solar would be priced above flexible nuclear and 10% of wind capacity. With this price floor arrangement, during surplus baseload generation conditions, wind and solar would be dispatched down before flexible nuclear and 10% of wind capacity. In turn, the frequency of manoeuvring flexible nuclear and its associated overcurtailment would decrease. The IESO estimated efficiency gains in the form of avoided costs related to overcurtailment to be \$5-\$8 million annually.



Some stakeholders inquired how a change to the floor price for wind and solar would affect their contracts. While the IESO does not anticipate that a floor price change will have a material impact on contracts, the IESO invited further feedback from stakeholders to help address any concerns they may have.

The next stakeholder meeting will be held on August 12 to respond to stakeholder submitted comments and to discuss next steps.