

## IESO EXECUTIVE LEADERSHIP UPDATE

To: Stakeholder Advisory Committee

From: JoAnne Butler, Vice President, Markets and Resource Development

Date: October 1, 2015

**Subject: NUG Framework Assessment Report Published**

Information Item: Follow-up to SAC Materials Provided March 5 2015

On December 19, 2014 the Minister of Energy issued a direction (the “2014 NUG Direction”)<sup>1</sup> 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”) with a report to be delivered to the Minister of Energy by September 1 2015.<sup>2</sup>

Upon the completion of the assessment, which included engaging with relevant stakeholders, the IESO provided the report to the Minister of Energy on September 1, 2015 and released the report publically on the IESO website on September 18, 2015.<sup>3</sup>

Some of the key considerations and findings of the assessment included:

- Review of key lessons from the negotiation experience with NUGs to date, including highlights of the challenges associated with negotiating contracts without the competition that is present in other procurement mechanisms.
- An assessment of anticipated system needs using updated supply and demand forecasts which indicates a need for additional peaking capacity beginning in 2021 (i.e., the start of the “Capacity Gap”).

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<sup>1</sup> 2014 NUG Direction:

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

<sup>2</sup> The 2014 NUG Direction was subsequently amended on April 22, 2015, by the “Procurements” directive that modified the date the report was due from July 1 to September 1, 2015. This direction also required that the IESO develop a report in relation to lessons learned, and recommendations regarding the future of, the CHPSOP 2.0.

<http://www.ieso.ca/Documents/Ministerial-Directives/MC-2015-904-Outgoing-IESO-Letter-of-Direction-1.pdf>

<sup>3</sup> Link to the NUG Framework Assessment Report:

<http://www.ieso.ca/Documents/generation-procurement/NUG-Framework-Assessment-Report.pdf>

- Final decisions have not yet been made around the continued operation of Pickering NGS and the refurbishment sequence for Darlington NGS and Bruce NGS. These decisions are expected to have a significant impact on the forecasted start of the Capacity Gap and therefore on the value proposition for ratepayers of re-contracting NUGs prior to the start of the Capacity Gap.
- No individual NUG has been identified as currently addressing a local reliability need (i.e., each NUG could cease operating without requiring any remedial action be taken).<sup>4</sup>
- NUGs are one of a variety of resource options that could be pursued to address anticipated future system needs, although not necessarily the lowest cost option.
- It is anticipated that NUGs will be able to participate in upcoming capacity export and capacity auction opportunities that are expected to become available within the next few years.
- The next LTEP will provide further clarity into the long-term supply and demand forecast.

In light of the above considerations, the IESO developed the three key recommendations in relation to the future of NUG recontracting in Ontario:

1. **Continue the current pause in the recontracting of NUGs** – given the current strong supply outlook and other considerations, entering into long-term contracts for additional NUG generation capacity is not recommended at this time.
2. **Actively monitor evolving sector conditions and impacts on system need** – these recommendations should be revisited as sector changes are clarified, particularly those related to decisions around the continued operation of Pickering NGS, the rollout of capacity auction and capacity export opportunities, and the introduction of cap-and-trade legislations.
3. **Continue development of the capacity auction and capacity export markets with consideration given to facilitating broad participation, including that of NUGs** – the IESO recommends that NUGs be given the opportunity to compete with other resources to address anticipated system needs in the future.

Following the review of the NUG Framework Assessment report, the IESO understands that the Minister of Energy intends to issue further direction concerning the future of NUG contracting in Ontario.

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

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<sup>4</sup> Further studies are underway to determine whether Kapuskasing NUG and Calstock NUG are exceptions to this statement.

## **APPENDIX A – NUG Procurement Background:**

- On November 23, 2010 the Minister of Energy issued a direction to the OPA (the “2010 NUG Direction”)<sup>5</sup>. This directive instructed the OPA to engage in negotiations for new contracts for NUG facilities upon the expiry of their existing Ontario Electricity Financial Corporation (“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 where the value propositions of the owner and the ratepayer did not intersect and as such terms for new contracts for these facilities could not be reached. Going forward, the owners of these facilities may choose 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 was considered during the course of the NUG Framework Assessment.

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<sup>5</sup> 2010 NUG Direction:

[http://www.powerauthority.on.ca/sites/default/files/new\\_files/about\\_us/pdfs/doc20101123173916.pdf](http://www.powerauthority.on.ca/sites/default/files/new_files/about_us/pdfs/doc20101123173916.pdf)