Feedback Form

Long Lead-Time Resource Procurement – April 23, 2025

Feedback Provided by:

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Date: May 9, 2025

To promote transparency, feedback submitted will be posted on the Long Lead-Time engagement page unless otherwise requested by the sender.

☐ **Yes – there is confidential information, do not post**

X **No – comfortable to publish to the IESO web page**

Following the LT2 RFP April 23, 2024, engagement webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the items discussed. The presentation and recording can be accessed from the LLT engagement web page.

Note: The IESO will accept additional materials where it may be required to support your rationale provided below. When sending additional materials please indicate if they are confidential.

Please submit feedback to engagement@ieso.ca **by May 9, 2025.**

Resource Eligibility: Hydroelectric Resources

Do you have any feedback regarding Hydroelectric resource eligibility?

The OWA supports the IESO's proposed bifurcation of energy and capacity resources into separate streams within the LLT procurement. We support the inclusion of new hydroelectric developments, retrofits, expansions, upgrades, refurbishments and redevelopments.

The IESO is interested in any specific project information regarding potential hydro redevelopments, expansions and upgrades looking to participate in the procurement to help inform eligibility.

The incremental energy (and capacity) from hydroelectric expansions or upgrades should be eligible to participate in the LLT as there is no mechanism within existing and proposed Programs (e.g. SHP, NHP) to support such investments. We note that the Minister's direction to the IESO of May 8 2024 provides that "I understand that the IESO is allowing existing hydroelectric facilities who want to expand or upgrade to participate in the LT2 RFP." Consistent with the IESO's proposed adoption of other key features of LT2 for LLT (e.g. E-PPA, rated criteria), we strongly recommend that this direction be applied to LLT.

Resource Eligibility: LDES Resources

Do you have any feedback regarding LDES resource eligibility?

N/A

The IESO is looking for feedback to consider when developing the list of LDES technologies that will be eligible to participate in the procurement.

N/A

Term Length & Commercial Operation

Do you have any feedback regarding the proposed term length and MCOD?

The OWA also recommends that hydroelectric projects proponents be provided the option to propose a longer-term contract (e.g. fifty (50) years) given the lifespan of these assets and the potential additional benefits to ratepayers.

OWA supports the proposed eight (8) year timeline from contract execution to MCOD and recommends that for projects that come into service prior to the MCOD, incentives be provided including additional contract term (e.g. a project reaching MCOD in six (6) years would receive a (minimum) forty-two (42) year contract).

We also note that Section 2.2. (e) (iii) of the LT2(e-1) Contract seeks to incentivize early operation such that if Commercial Operation of the Facility is achieved before the COD Bonus End Date, the Supplier shall be entitled to apply a fixed payment multiplier to the Fixed Price, which will be determined based on the time-period in which the COD was achieved. Given that the LLT Contract

will have a Commercial Operation Date that is more than five (5) years but no more than eight (8) years, it is recommended that a similar concept be applied (e.g. increasing multiplier for projects coming online in year seven (7), year six (6) and year five (5).

Mandatory Requirements

Do you have any feedback regarding the requirements noted?

The OWA agrees in principle with the relevant mandatory criteria but recommends that they be tailored to the LLT hydroelectric projects – in particular the OWA recommends that similar experience with existing facilities (e.g. upgrades, expansions, sustaining investments) be recognized as equivalent to experience with new development.

Rated Criteria

Do you have any feedback regarding the rated criteria noted in the presentation?

It is unclear given the timing of project MCOD in LT2 and LLT whether the location of a project in northern Ontario is practical as a rated criteria given the limited connection capacity in the north. The IESO now has information through the LLT RFI process that could be used to "set aside" some of the existing capacity for more energy intensive hydroelectric projects and, as the IESO has indicated, help inform transmission expansion priorities. We believe both these measures should be further explored.

Do you have suggestions on additional criteria that should be considered as part of the LLT Resource Procurement? Please provide rationale to support any recommendations.

We note the disparity in the federal Investment Tax Credit regime between privately and publicly owned (e.g. municipal) projects (30% and 15%) respectively. Amongst other measures (e.g. levelization of price based on ITCs), some consideration should be given to providing rated criteria points for public (municipal) projects.

Proposal and Contract Security

Do you have any feedback the IESO should consider when developing a proposal for this design item?

Based on the response to the RFI, the IESO has indicated that the majority of projects identified are "small hydro" – i.e. <10MW in installed capacity (Slide 18). As such, we are of the view that the approach to proposal and contract security applied in LT2 is not appropriate for the LLT energy stream. Put simply, a minimum $500,000 security requirement is disproportionately impactful for these small hydro projects. The OWA recommends that the $35,000/MW threshold be applied, without a minimum.

The OWA supports the IESO's consideration of a phased approach to security (Slide 34) and looks forward to working with the IESO on an appropriate mechanism for these long lead time resources.

Contract Design Considerations

Do you have any feedback on the contract design considerations discussed?

The IESO is looking for feedback on the LT2 draft contracts to help inform design for the LLT contract. Please highlight any areas you think should be reconsidered for LLT resources; provide as much detail and rationale as possible to help inform decision making.

The OWA has been working directly with the IESO through the Northern Hydro Program on key considerations for the E-PPA contract structure as applied to hydroelectric resources. Our initial comments include:

Valuing both Energy and Capacity

The IESO has indicated that it plans to run two separate Long Lead Time procurements: one for energy resources (including waterpower) and the other for capacity resources (including long duration storage). The OWA supports this bifurcation but notes that the vast majority of waterpower resources can provide both energy and capacity, particularly if they are contractually incented to be built in a manner that offers some storage. The E-PPA contract for hydroelectric resources should specifically value energy, capacity and reliability services.

De-risking pre-development

As noted in the recent ERO posting (025-0449) "New hydroelectric assets are complex, long-lived projects and significant pre-development work is required to take these projects from origination of the concept to the initiation of design".

The last significant procurement of new hydroelectric resources in Ontario resulted in government having to adjust the target development timeline from five (5) to eight (8) years, due largely to challenges with review and approvals processes. Only twenty percent (20%) of projects offered contracts were eventually built and input costs increased by more than fifty percent under a fixed-rate contract. While the OWA is actively working with the Ministries of Natural Resources and Energy and Mines to streamline regulatory and policy processes, we are of the strong view that there must be a mechanism included within the LLT Program Rules and contract that helps to de-risk predevelopment costs. It will be important that, particularly with respect to new hydro opportunities, the process(es) designed to recover pre-development costs not only include those costs associated with regulatory processes, but the provision of capacity for Indigenous (and other) communities to effectively participate as project proponents or partners. Several mechanisms have been utilized in the past in this context (Loan Guarantees, Price Adders, Taxation Resource Revenue Sharing, Infrastructure Funds) that should be evaluated and assessed in order to design a "fit for purpose" approach.

Imputed Production Price for Run of River Facilities

Under the MT2/LT2 structure, the monthly Imputed Production Price (IPPm) for solar and wind facilities is equal to the lower of (i) the Forecast Weighted Average Price (FWAPm) and (ii) the simple average of the Day-Ahead LMP. This construct appropriately acknowledges the intermittent nature of wind and solar generation, which helps align the Deemed Energy Revenue calculation with actual market revenues earned by wind and solar facilities. Importantly using the lower value between

FWAPm and the simple average of the Day-Ahead LMP prevents the Deemed Energy Revenue from being overstated relative to a facility's actual market revenues.

Run-of-river hydropower facilities are also intermittent resources. Suppose a facility generates strongly during low-price periods but weakly during high-price periods within a month. In that case, a discrepancy can arise between the Deemed Energy Revenue calculation and actual market revenues, potentially preventing the facility from meeting its revenue requirement. Therefore, similar to the approach used for wind and solar, the NHP E-PPA structure should adjust the IPPm calculation for run-of-river hydro by taking the lower of (i) the generation-weighted average price and (ii) the simple average of the Day-Ahead LMP.

Non-performance penalties

We note that the IESO has previously clarified that failure to achieve the program's required 80% annual production factor will result in a penalty equivalent to the difference between actual production and the 80% target (i.e., 75% production results in a 5% penalty). Given the variation of hydrology, the OWA has recommended that the IESO utilize a five (5) year rolling average of production to determine non-performance.

We also note that at the December 12, 2024 LT2 engagement session the IESO introduced a new concept called "Grid-Based Unavailability," which accounts for Outages (other than Planned Outages and events of Force Majeure) related to the Transmission/Distribution (T&D) system applying to cases where the Supplier has complied with Outage reporting requirements and demonstrated T&D impacts physically prevented suppliers from delivering electricity and that such outage was not caused (directly or indirectly) by the Supplier. We expect that this same provision will be applied to LLT facilities.

Moreover, and consistent with contracts for existing waterpower facilities, we recommend including a provision for these long-lifespan assets for supplier-initiated long-term outages for upgrades, expansions and redevelopments, as reflected in a Long-Term Operating Plan. The provision would provide for planned investment certainty and ensure the system continues to benefit from a fleet of reliable units without undue penalties.

Claw-backs if energy market revenues exceed revenue requirements

The current LT2 Contract a assesses performance against market price monthly:

"The "Monthly Payment" shall be an amount, based on the imputed operating and revenue model calculated in accordance with Exhibit J. If the Monthly Payment is a positive amount, it shall be payable from the Buyer to the Supplier. If the Monthly Payment is a negative amount, the absolute value of the Monthly Payment shall be payable from the Supplier to the Buyer."

The OWA believes that if any Monthly Payment would be negative, any claw-backs should be administered based on annual rather than monthly performance, i.e. a claw-back would only occur if the sum of all Monthly Payments across a year were negative.

General Comments/Feedback

The IESO has provided overarching principles for the LLT (slide 22) which include certainty, competition, efficiency and cost-effectiveness. With respect to the latter, the IESO has provided the example of establishing a price ceiling to further incent competition. We note that, in contrast, for LT2, the IESO is proposing an approach such that "Any PQ whose price exceed the weighted average by more than 40% will be eliminated" (LT2 engagement, April 24 2025, slide 21). The OWA is of the view that much more discussion is required with respect to the approach to cost-effectiveness in LLT.