

Stakeholder Feedback and IESO Response

Long-Term RFP Engagement – February 8th, 2022 Webinar

Following the February 8, 2022 engagement webinar on the Long-Term RFP (LT1 RFP) the Independent Electricity System Operator (IESO) received feedback from participants on the proposed eligibility, contract structure and term length, and forward period.

The presentation materials and stakeholder feedback submissions have been posted on the [Long-Term RFP webpage](#). Please reference the material for specific feedback as the below information provides excerpts and/or a summary only.

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LT1 Eligibility/RFQ/RFP

Question/Comment	IESO Response
<p>Regarding uprates, would the IESO define all valid uprates and confirm they are eligible under the LT RFP. Lastly, are existing, uncontracted MW's eligible under the LT RFP?</p>	<p>The LT1 RFP is intended to help address system reliability needs that emerge as early as 2025, by acquiring capacity from incremental new-build supply and storage resources. Expansions to existing resources/assets are also under consideration. The IESO will continue to engage with stakeholders to identify how uprates, including uncontracted MWs may be able to participate.</p>
<p>Will the IESO adapt the requirements of the RFQ if there is insufficient competition?</p> <p>Many of the requirements set out in the RFQ e.g. evidence of permits or licences, pose a significant barrier to smaller resources.</p>	<p>The objective of the RFQ is to ensure that the interested parties have the capability to undertake project development for the LT1 RFP. This means that the LT1 RFQ will seek to evaluate applicants both on entity-level experience and individual/team member experience. Given the time sensitive nature of emerging system needs that the LT1 RFP aims to address, the IESO has concluded that the requirements laid out in the RFQ are necessary to ensure interested parties are able to meet Ontario's Resource Adequacy needs.</p>
<p>Currently the RFQ states that applicant employees – not the company itself – must have “experience engaging with Indigenous communities and/or rights holders in Canada”. This is a very low bar.</p> <p>Instead, the IESO should require that project proponents have detailed commitments for partnering with Indigenous communities, including opportunities for significant equity positions and supply-chain contracts.</p>	<p>The IESO is in the process of gathering feedback on the draft RFQ and will take this into consideration as we seek to finalize the draft.</p> <p>Further to this, the IESO will be engaging with Indigenous communities and municipalities in the Spring for more detailed feedback to inform the RFP design and Indigenous participation in the procurement.</p>

Question/Comment	IESO Response
<p>More clarity is needed on locational needs and how these needs may be specifically addressed through the RFP.</p> <p>How many MWs are required in the zones communicated?</p> <p>We would like to see clearer electrical and physical boundaries. Will projects only within these boundaries be considered?</p>	<p>To provide more clarity on locational needs, the IESO would like to re-iterate the following important points:</p> <ul style="list-style-type: none"> - The zonal map that was presented at the most recent stakeholder engagement session is neither a deliverability map nor a projects selection tool; it is only a visual illustration for the locational needs previously communicated in the 2021 APO - The objective of the LT RFP is to acquire capacity to meet both the global provincial need and these locational needs - New resources located anywhere in the province would have value in meeting the global provincial need. In addition to this, new resources located in some parts of the province would have some added value in addressing identified locational needs. The IESO has yet to determine how significant this aspect will be in the RFP evaluation process, and will communicate with stakeholders in future engagements the methodology that will be used to evaluate projects that address locational needs. - The IESO is working to refine the locational needs, with clearer electrical and physical boundaries, based on planning studies currently underway; more details will be provided in future engagements <p>Deliverability is a separate issue than locational needs. In order to ensure emerging system needs are met, a process is required to assess the deliverability of the capacity from new resources considering transmission/distribution system limitations. This deliverability assessment would apply to a new resource whether or not it is located within an area with locational needs (i.e., green areas on the map).</p>

Question/Comment	IESO Response
<p>Does the IESO expect that an intermittent renewable generator will require some form of storage to qualify under the 4-hour energy and full dispatchability requirements?</p> <p>Are standalone intermittent renewable projects being barred from participating?</p> <p>How will the IESO assign a UCAP equivalent value for solar and wind generating facilities?</p>	<p>The IESO has included a mandatory requirement of 4-hours of consecutive energy output to ensure that resources are able to meet the province’s reliability needs.</p> <p>The LT1 RFP is anticipated to be a technology agnostic procurement, which would be open to any resource that is able to meet the mandatory requirements (i.e. 4 hours); if renewable projects are able to do so, they will be eligible. Please refer to the MT RFP UCAP guidance document for an example of how UCAP was calculated for solar and wind facilities under a previous procurement. The IESO will work with stakeholders to ensure that capacity qualification for the LT1 RFP takes into account procurement specifics including the length of the contract term on offer. This is a topic that will be discussed at a future engagement session.</p>
<p>Will new gas-fired projects be permitted to participate in the Long-Term RFP?</p>	<p>The LT1 RFP is anticipated to be a technology agnostic procurement that seeks to acquire products/services to meet emerging needs. However, specific operational requirements and constraints for the LT1 RFP are yet to be finalized.</p> <p>As part of the Resource Adequacy Framework, the IESO has identified the role of government policy. As the government considers new policy, the IESO will continue to engage with government to understand how it may impact the LT 1 RFP and other Resource Adequacy Framework procurements.</p>

Question/Comment	IESO Response
<p>Please provide the IESO's rationale for selecting 4 hours of continuous energy as a mandatory requirement.</p> <p>Should be 8 hours of energy duration instead of 4 hours.</p>	<p>As previously stated through the Resource Adequacy engagement, a 4-hour requirement ensures the IESO has sufficient assurance that committed resources can be relied upon to meet peak capacity needs that endure for several hours.</p> <p>Similar 4-hour requirements are also used by other jurisdictions to reflect peak needs: each of MISO, CAISO, and SPP use a 4-hour duration for both their capacity qualification and eligibility requirements for energy storage.</p> <p>The IESO will provide further details on mandatory criteria at subsequent engagement sessions.</p>

LT1 Contract Structure and Term Length

Question/Comment	IESO Response
<p>The IESO should not structure the RFP as a capacity style contract, but rather a mechanism more suitable for securing storage resources, such as a Contract for Differences (CFD).</p> <p>A CFD structure could serve to adequately de-risk investment and help reduce total costs. These contracts should be designed as “all-in” procurements, incenting suppliers to bid in the full costs of their projects.</p> <p>Generally, the bundling of revenue streams in longer-term contracts incentivizes private market participation, protects ISOs against low competition, and ensures low-cost options for ratepayers.</p> <p>The IESO should procure a bundled product (capacity + energy), which will facilitate more favourable financing.</p>	<p>The IESO recognizes that a capacity only contract may not currently provide investors with sufficient revenue certainty to finance projects in Ontario.</p> <p>Many stakeholders are supportive of additional revenue certainty, most notably some form of energy revenue guarantee.</p> <p>The IESO does not intend to pursue a capacity-only contract for the LT1 RFP. Rather we will work together with the sector to develop the right contractual framework that appropriately balances investor certainty with system needs. The IESO is currently exploring a number of contracting options, including those outlined in the March 10th stakeholder engagement session.</p>

Question/Comment	IESO Response
<p>There is significant uncertainty regarding the policy treatment of opportunities for storage to monetize EAs.</p> <p>Early indications suggest the Clean Energy Certificate (CEC) Registry will focus primarily on existing assets – we do not expect potential monetization of EAs to play a relevant role in either our project design or bid submission.</p> <p>Generators are unlikely to consider CEC revenue in any commercial or financial model until the program rules are established and the program is operational. Before such time, generators are unlikely to pass along this value to ratepayers through the bidding process.</p>	<p>The IESO recognizes that the CEC Registry may impact this procurement, and will seek to update stakeholders as the initiative progresses.</p>

Question/Comment	IESO Response
<p>The IESO should consider longer term lengths (a variety of term lengths from 12 to 20 years were proposed) to support project investment and lower financing costs. Further to this, stakeholders were supportive of the presented options to provide:</p> <p>Additional term for those resources able to enter commercial operation prior to the common term start date; and</p> <p>Additional term for resources able to provide high system value, in critical locations.</p> <p>Our view is that a term of at least 15 years is necessary. A 10-year contract term will likely be a challenge for most investors, given the mismatch with asset life and the limited track record of capacity markets in Ontario. This will result in increased financing costs. CFD's provide additional certainty.</p>	<p>The IESO understands stakeholders' feedback that longer term lengths may better support project financing and potentially lower bid prices. Therefore, the IESO is proposing a revised term length of 15 years.</p> <p>Additional term length may be possible for resources able to come into service as early as 2025.</p> <p>The IESO will not be pursuing "bidding in term dates" due to the added complexities of aligning contract expirations.</p> <p>The IESO will also not be pursuing the idea of awarding additional term length based on rated criteria scoring.</p>

Question/Comment	IESO Response
<p>The IESO should include municipal support and Indigenous engagement or participation as part of the rated criteria.</p> <p>The IESO should also value non-emitting resources (or penalize emitting resources) as part of the rated criteria in order to help with decarbonization efforts.</p> <p>It is our opinion that expecting generators to increase their costs to properly factor in the cost of GHG emissions is not adequate; we do not believe this should be self imposed/scored.</p>	<p>The IESO appreciates feedback on potential rated criteria and plans to dedicate time at a future LT1 RFP engagement session to further discuss this topic, including the treatment of municipal engagement/support, Indigenous engagement/support and Indigenous participation.</p> <p>The IESO will also be commencing outreach and engagement with municipalities and Indigenous communities to inform them of the characteristics of the LT1 RFP, seek input on procurement design and offer support to municipalities and Indigenous communities around the process, possible inquiries related to the procurement and Indigenous participation. A dedicated LT-RFP Community Engagement webpage has been established, with details of the first webinar to be announced soon.</p> <p>As part of the Resource Adequacy Framework, the IESO has identified the role of government policy. As the government considers new policy, the IESO will continue to engage with government to understand how it may impact the LT 1 RFP and other Resource Adequacy Framework procurements.</p>

LT1 Forward Period

Question/Comment	IESO Response
<p>One of the challenges for a 2025 COD may be supply chain. There currently are difficulties procuring some electrical equipment with up to a year for delivery. Any delay in the RFP process that results in a later contract execution will make it extremely difficult to meet a 2025 timeline.</p> <p>With RFP awards expected in mid to late 2023, it will be a challenge for any project to be fully operational by 2025. Contracting timelines should be accelerated.</p>	<p>The IESO recognizes that it will not be possible for many proponents to be able to be fully operational by May 2025. It is for this reason that the baseline Commercial Operation Date (COD) is set for 2027 – only those facilities that are confident they can meet an accelerated timeline are encouraged to pursue CODs in 2025/26.</p>

General Comments & Questions

Question/Comment	IESO Response
<p>The IESO should consider a capital cost adjustment mechanism in the RFP to account for fluctuations in applicable raw materials and commodity prices between the RFP submission and in-service period. Doing so would enable energy storage proponents to present the most competitive pricing for ratepayers and reduce contingency associated with price volatility.</p>	<p>The IESO will not be incorporating a capital cost adjustment mechanism into the RFP.</p> <p>It is the responsibility of the proponent to estimate their capital cost and appropriately factor it into their bid into the RFP.</p>
<p>Under the Market Renewal Program (MRP), the IESO is proposing to implement a vast overhaul of the IESO-Administered Markets. Many of the changes will directly impact the cost and revenue potential for energy storage resources. The rule changes have not been delineated and will not be implemented until the mid-2020s.</p> <p>For example, the adoption of a Locational Marginal Price (LMP) will impact the expectation of future charging costs and revenues for injected energy. Details on how prices will be determined is required to forecast future LMPs for storage.</p> <p>Further, the IESO is proposing a Market Power Mitigation (MPM) Framework that will restrict the revenue upside for storage during constrained hours.</p>	<p>The IESO recognizes that there is significant uncertainty with respect to the MRP and associated changes to the market, such as the transition to LMPs.</p> <p>The IESO is amenable to exploring alternative contract structures, such as a capacity contract with additional energy hedging options. Potential options, such as a bundled CFD, will be explored together with stakeholders at upcoming LT-RFP stakeholder meetings.</p> <p>The IESO will work with stakeholders throughout the RFP/Contract design process to ensure that the uncertainty stemming from the Market Renewal Program is reasonably accounted for.</p>

Question/Comment	IESO Response
<p>For the immediate procurement, it is recommended that the IESO provide additional flexibility (up to 2 years) for the commercial operation date such that larger-scale projects with longer lead times can achieve commercial operation.</p> <p>This will allow technologies that can scale up in size and provide grid reliability to bid for the procurement and ensure the lowest cost to Ontario ratepayers.</p> <p>A-CAES technology requires 4-5 years to achieve commercial operation including 2 years of development and permitting followed by 3 years of construction.</p>	<p>The first Long Term procurement - LT1 RFP - is being designed to meet a specific, time sensitive capacity needs, in order to ensure that Resource Adequacy standards are maintained in Ontario.</p> <p>Resources unable to meet the commercial operation date of the LT1 RFP will have other opportunities through subsequent procurements to meet Ontario's growing capacity needs.</p>