

Feedback Form

Long-Term RFP – March 10, 2022

Feedback Provided by:

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Following the March 10th public webinar on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on a variety of elements to help further inform the draft RFP and Contract, including: term length, revenue streams, deliverability process and Draft RFQ.

The referenced presentation can be found on the [Long-Term RFP webpage](#).

Please provide feedback by March 17, 2022 to engagement@ieso.ca.

Please use subject header: **Long-Term RFP**. To promote transparency, this feedback will be posted on the [Long-Term RFP webpage](#) unless otherwise requested by the sender.

The IESO will work to consider and incorporate comments as appropriate and post responses on the webpage.

Thank you for your contribution.

Term Length

Topic	Feedback
Does the revised, 15-year term length provide stakeholders with sufficient certainty for project financing and development?	<p>The price of power is linked to the combination of both term lengths and the energy products covered by the contract (e.g., capacity, energy, ancillary services, environmental attributes). Longer terms with fully bundled products will provide the lowest cost, while shorter terms with limited products tend to be more expensive.</p> <p>Lenders will size their debt and developers will price their equity based on the amount of contracted cash flows and the exposure to merchant markets, respectively. Given the uncertainty around the current market renewal and the overall size/liquidity of the IESO market, limiting the merchant risk for developers will help provide the most competitive pricing. This can be achieved through either longer-term contracts or a bundling of the contracted products.</p> <p>Compared to other jurisdictions, the proposed term length of 15 years is still on the lower end, even in jurisdictions with comparably deeper merchant markets. However, a further bundling of products (incl. capacity, energy, ancillary services, environmental attributes) can help reduce a project's exposure to the IESO merchant market, and help Ontario improve its procurement competitiveness compared to regional peers.</p> <p>While we believe that a 15-year term is workable, we also believe that a 20-year term would result in lower costs to ratepayers.</p>

Revenue Streams

Topic	Feedback
<p>Are stakeholders supportive of the high-level approach for additional revenue streams, discussed in slides 26-28?</p>	<p>We are generally supportive with the high-level approach of adding certainty to the energy revenue stream to a capacity baseline, as outlined on slides 26-28. The implementation details will matter as small changes in program design could have a material impact on which technologies are competitive.</p> <p>We agree with the IESO that reducing revenue certainty will increase costs, in particular increased merchant exposure will drive higher discount rates, and lower debt raising capability, increasing price.</p> <p><u>For non-energy producing resources</u> (i.e., battery storage), a different mechanism other than the CFD/hedge structure may be required, since revenues from energy sales are determined by market spreads / energy arbitrage, and not the absolute value of the energy price.</p> <p><u>Strike Price Determination:</u> If the IESO chooses to proceed with the hedge structure, then having the strike price as a bid (instead of a fixed contract parameter per technology), will likely yield the most effective pricing across all technologies. In addition, considering that the different technologies and hybrid projects may have significant variability between projects, it may in practice be difficult to set technology based fixed contract parameters.</p>

Topic	Feedback
<p>Does an option with a capacity payment and energy market hedge provide stakeholders with sufficient certainty?</p>	<p>If the IESO is set on a 15-year term length, which is lower than its regional peers by up to 5-15 years, then providing certainty on other revenue streams will help improve the procurement's competitiveness.</p> <p>Although hedges and qualifying hours serve to align energy production with the market, they add further uncertainty to energy revenues, thus increasing costs.</p> <p>Under the current proposal and compared to regional peers, the IESO is offering: i) shorter contract terms, and ii) lower revenue certainty (due to less contract bundling and a lack of merchant market track record, size, and liquidity). Improving on either one of these two fronts should yield more competitive pricing.</p> <p>In addition, for battery storage projects, contracts that reimburse demand charges, global adjustment charges, and regulatory and uplift charges will provide more certainty and reduce pricing. Given the ongoing market renewal and expected policy changes, developers are likely ill-equipped to efficiently price those risks, increasing costs.</p>
<p>Do stakeholders believe that the high level revenue stream option supports efficient market operation? Are there additional considerations that could help support energy market efficiency?</p>	

Deliverability Process

Topic	Feedback
Do stakeholders have any comments on the deliverability process laid out on slides 34-36?	The level of detail provided will be important. It would be instructive to see the IESO's template for all three answers (deliverable, not deliverable, deliverable but competing). Relevant information could include how many competing MWs there are across how many projects, the constraint behind a project being non deliverable, etc.
Does the general timing of the proposed deliverability process (i.e., a deliverability assessment window prior to proposal submission) provide stakeholders with enough clarity on the deliverability of their proposed project?	The approach seems reasonable. We would not expect the deliverability assessment to be a requirement to bid into the LT FRP.

Draft RFQ

Topic	Feedback
<p>Do stakeholders have any general comments on the draft RFQ as discussed on slides 37-46?</p> <p><i>Please note that specific draft RFQ feedback is requested on the feedback form sent alongside the draft RFQ on February 28.</i></p>	No comment at this time.

General Comments/Feedback