

# Feedback Form

## Long-Term RFP – August 10, 2022

### Feedback Provided by:

Name: Brandon Kelly

Title: Manager, Regulatory & Market Affairs

Organization: Northland Power Inc.

Email: [REDACTED]

Date: August 22, 2022

Following the August 10<sup>th</sup> public webinar on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on: the LT1 RFP design and key updates presented in the meeting, Contract Design, Upgrades, and the Deliverability Test Guidance Document.

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

**Please provide feedback by August 22, 2022 to [engagement@ieso.ca](mailto: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.

## LT1 RFP Design and Key Updates

Topic	Feedback
Please provide any general feedback on the LT1 RFP design and the key updates provided by IESO in the meeting.	<p>Slide 18 suggests the IESO will limit the amount of MW/projects awarded to a single supplier. Does that limit only apply within a single procurement mechanism, or across mechanisms?</p> <p>Slide 25: does the contract payment multiplier apply to Same Technology Expansions? The LT1 RFP?</p>

## Proposed Contract Design

Topic	Feedback
Please provide any feedback on the contract design and provisions proposed by the IESO.	<p>Slides 27 and 31 note that the Electricity Storage-Style Contract will include a Regulatory Charge Credit (inc. GA). For Class A Consumers, credits should not be tied to actual GA incurred, as doing so will fail to disincentivize charging during peak demand periods.</p> <p>Slide 29: for storage resources, the IESO's use of energy market price spreads is a step in the right direction relative to its earlier proposal based on absolute price levels. That said, the IESO's continued use of thresholds that trigger an all-or-nothing payment (or claw back) remains problematic. A difference of a couple cents will have little impact on market revenues but may have a significant impact on contract revenues at price spread levels around the thresholds. In this way, the IESO's proposal adds contract risk, while failing to adequately mitigate market risk.</p> <p>Contracts that fail to offer a reasonable hedge will not serve to reduce the overall cost of supply; Lenders allow for more leverage and at better rates when risks are mitigated, something the proposed contract designs fails to adequately achieve.</p> <p>The proposed hedge is in stark contrast to those offered to gas-fired and renewable generators in previous procurements, which far more closely resembled a dollar-for-dollar hedge. These existing and proven</p>

Topic	Feedback
	<p>contract styles relied on a more granular deeming mechanism to approximate market revenues under the contract. We encourage the IESO to explore a more granular deeming mechanism-style hedge for the energy storage procurement. CanREA has proposed such a hedge construct that could serve as a starting point.</p> <p>If the IESO proceeds with its proposed hedge style, proponents of storage projects should have the option to decline the hedge and compete on a capacity-only basis. All else being equal, projects that decline the hedge should be viewed more favourably than those that accept the hedge, given the cost certainty they provide.</p> <p>Slide 33 discusses the IESO’s approach to indexation. No single index will fit all storage projects, and not all storage projects proposed will be lithium-ion batteries, but many will be. For those projects, lithium-ion costs make up a quarter to a third of total CapEx costs.</p> <p>As evidenced by recent prices, lithium-ion can be amongst the most volatile cost component across all storage technologies. Consequently, any hedge that fails to directly account for the cost of lithium-ion will jeopardize the success of many storage projects.</p> <p>While a non-lithium-ion project (say a flow battery) may not benefit from a lithium-ion specific hedge, the price of its components may not be as volatile as lithium-ion, thus reducing the benefit of any hedge in the first instance.</p> <p>The IESO may consider providing storage proponents with a limited number of indices to select amongst to serve as the basis for their hedge. If this approach overcomplicates the bid evaluation process such that a single one-size-fits all index is preferred, then a contract design with an index strongly tied to the price of lithium-ion is advisable. Alternatively, a blend of a number of indices representing the varying cost components of storage – including one tied to lithium-ion – could provide a sufficient hedge for most storage technologies.</p>

Topic	Feedback

## Proposed Upgrades Process

Topic	Feedback
<p>Please provide any feedback on the proposed design and other considerations with respect to the Same Technology Upgrades procurement process.</p>	<p>Slide 37 states that Expansions – which largely target gas-fired resources – will participate in the Expedited and LT1 RFPs, both of which offer contract end dates in 2047. Unfortunately, the economic life of gas assets is likely to be truncated by proposed Federal legislation which mandates the full decarbonization of electricity by 2035. Given this misalignment, Expansions at gas facilities face significant stranded asset risk and aren't likely to place any value on revenue streams, contracted or otherwise, beyond 2035. As a result, a procurement that contracts out to 2047 is an ill-fitting mechanism to procure incremental gas capacity at a competitive price.</p> <p>Additionally, while Expansions may be contracted, dispatched, and metered separately, there are still critical interdependencies between the existing facility and the expansion, including: land leases, gas and electricity transmission infrastructure, staff, Balance of Plant costs, etc. As a result, Expansions need the same certainty afforded to Upgrades that the contract expiration of its existing and incremental capacity will align.</p> <p>Expansions at existing facilities are amongst the most likely projects to provide incremental capacity in time to meet the IESO's 2025 needs. To the extent the IESO views these projects as critical, it should run a separate procurement that includes a contract end date out to 2035 for all existing and incremental capacity – like what is being done for Upgrades.</p> <p>For Upgrades, the IESO is proposing that proponents submit new contract parameters – including capacity, payment amount, and term length – for the 2025-2035</p>

Topic	Feedback
	<p>period. For existing resources with contracts that expire after 2025, this would effectively require waiving their existing contract in favour of whatever contract is agreed to under the Upgrade procurement. This approach is likely to prove challenging, and potentially unworkable in some circumstances, given lender constraints on the existing contract. For example, debt repayment schedules are sized based on contracted revenues and term length; If proponents are expected to accept less annual contracted revenues, albeit over more years, lenders must be willing to rework the debt repayment schedule accordingly.</p> <p>To avoid reopening existing contracts, the IESO could limit bids to only include capacity that is incremental to what is already procured, meaning incremental capacity from the Upgrade from 2025 to the end of the existing contract ("Capacity A"), and all facility capacity from existing contract end to 2035 ("Capacity B"). The IESO could then evaluate the cost of competing projects based on this incremental capacity, accounting for differences in contracted parameters like heat rate.</p>

## Deliverability Test Guidance Document

Topic	Feedback
<p>Please provide any feedback on the Deliverability Test Guidance Document and associated form.</p>	<p>If an existing facility were to submit a <i>Deliverability Test Input Form</i> for both an Upgrade and an Expansion, would these projects be viewed as competing for the purposes of assessing deliverability? If the proponent indicated that it will only pursue either an Expansion or an Upgrade, not both, would these resources be tested separately (i.e. not competing) for the purposes of assessing deliverability?</p>

## General Comments/Feedback