

# Feedback Form

## Long-Term RFP – September 30, 2022

### Feedback Provided by:

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### Same Technology Upgrades & Expansions

- The IESO has provided limited guidance on how it will measure and evaluate submissions. Answers to these questions will guide how proponents approach project development and proposal submission.
  - The IESO asks proponents to submit an increase in their Maximum Continuous Rating (MCR) on an annual or seasonal basis, as applicable (in their existing contract presumably). The MCR of a facility will differ by season based on ambient conditions.
    - Can the IESO please confirm that the “Uprate Capacity” submitted by proponents can be different for each season, provided its current contract differentiates contracted capacity by season.
  - It is unclear how the IESO will value a capacity increase in one season versus another. The IESO’s latest APO identifies a greater need for capacity in upcoming Summer periods relative to Winter, does that mean the IESO will select projects based on their proposed Summer capacity only? Please provide guidance with examples as to how the IESO will value capacity across seasons.
  - The IESO has given proponents two options with respect to the contract length for their submission: maintain current contract length or extend out to 2035. The IESO has not indicated how it will assess the value of capacity in different years. Does it value capacity in one year more than another? This will impact how proponents approach their submissions,

but more guidance is needed. Please provide guidance with examples as to how the IESO will value capacity across years.

- The APO makes clear that the IESO will be relying on existing capacity long after its contract term is over. Assuming these resources can be re-contracted at end of term through the MT-RFP is a flawed assumption, as evidenced by the result of the recent MT-RFP which procured far less capacity than the IESO set out to, with some resources declining to participate in favour of more commercially viable alternatives. As such, in its evaluation the IESO should place significant value on extending the contracts of existing facilities beyond their current contract length and out to 2035.
- The IESO's Evaluation Priorities are vague and provide ultimate discretion to the IESO. In addition to providing the additional clarity sought above, the IESO should allow proponents the opportunity to rework their proposal following feedback received after the IESO's Stage 2 evaluation. Given the vagueness of the IESO's criteria, proponents should not be unilaterally eliminated from consideration without being given the opportunity to respond to the IESO specific feedback on their proposal.
- Will Upgrades be eligible for the same in-service incentives as projects participating in the Expedited RFP in terms of facilities that reach COD before May 1, 2026? If no, why not? Would Upgrade proponents, and in turn the IESO, not benefit from incentives to be in-service to meet the earliest of capacity needs?
- Can the IESO please expand on what it expects in terms of proponents "providing rationale for how (the NRR) was derived". The IESO makes mention of an "open-book", can the IESO please elaborate.
- For Upgrades, proponents have the option to submit a term length equal to their existing contract, or out to 2035. Under the first option, resources with shorter term lengths will be less competitive given the limited years to spread the recovery of capital costs, necessitating that many opt for option two. For existing resources looking to extend to 2035, 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. 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.
- IESO should only be concerned with the overall size of the Upgrade (not the size of the Upgrade relative to the existing MCR) when it considers whether it's worth the IESO's time and effort to pursue. There are other mechanisms in place to ensure upgrades are indeed incremental, including a requirement to describe how the Upgrade Capacity will be achieved, which could include the submission of technical documents.
- On slide 14 the IESO mentions that amendments to performance obligations may be required. In the case of gas-fired facilities currently on CES/CHP contracts, can the IESO please confirm that

these amendments would not include must-offer obligations, instead relying on the existing deemed operating mechanism.

- The IESO states it will provide limited contractual relief for the purposes of taking an outage to complete the Upgrade. This should include temporary relief from minimum availability requirements and deemed operating profit. Absent relief from deemed operating profit, proponents will need to build the risk of being deemed to operate profitably while on outage into their proposal costs, inclusive of a risk premium. Overall costs can be reduced if the IESO provides temporary relief from these costs and risks in the first instance.
- When will the proponent be required to post enhanced Performance Security? This should not be required until all terms of the agreement are known and executed (i.e. well after December 20, 2022 Solicitation Submission).

## Expedited/LT RFP & Contract

### **Section 2.1 (c)(iii)**

- Regarding Section 2.1(c)(iii), can the proposed contract capacity be less than what was submitted to the RFQ and deemed “Deliverable” or “Deliverable but Competing” under the Deliverability Assessment?
- How will the IESO address availability from storage resources that are dispatched to discharge early in the 16-hour window and can’t offer to discharge for portions later in the window? This appears to be accounted for when assessing availability for Events of Default (2.2.h.iii), but will they also receive relief from reduced availability payments?
- Regarding Section 2.2(d)(i), will proponents be permitted to bid in different Monthly Contract Capacity amounts for each month or season, or will it be fixed across the course of a year? If a project can bid in different capacity amounts by month or season, how will the IESO value capacity in different months or seasons? How will it “clear” the RFP? Based on the capacity bid for a particular month or season (such as Summer)?
- Regarding Section 2.2 (d)(iv), what rationale did the IESO use in selecting the high and low-price spreads? How are the high and low average price blocks determined?
  - The spreads on the collar do not appear to be indexed to inflation, which is a problem in a high inflation environment over a period of 20+ years in the contract
- Regarding Section 2.2(e)(iii), has the IESO set a Milestone Date for Commercial Operation or the Liquidated Damages Rate?
- Regarding Section 2.2(f)(i), is the Materials Cost Index Adjustment a one-time payment? Is the FCP defined in \$/MW-business day? Where does the MCIA calculation capture the project size?
  - 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 the largest proportion of CapEx costs. 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 – such as the IPPI proposed by the IESO – will jeopardize the success of many storage projects. 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 such hedge in the first instance. 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.
  - The hedge period should
- Regarding Section 2.2(j), is the project reimbursed for all actual as-billed GA cost incurred prior to being ICI eligible, regardless of when that charging occurred? Will there be any GA reimbursement past the point in which the facility is eligible for the ICI?

- Regarding Section 2.2(m)(ii), suppliers may treat this clause as a free out in their contract and may not pursue these requirements in good faith. The IESO should consider including a clause stipulating these requirements must be pursued in good faith, or some stronger requirement.
- Can the IESO please provide its rationale for limiting the HSAF and LSAF to 0.2?
- The contract lacks a provision to sufficiently protect suppliers from changes to the IESO market rules that impact Supplier Economics. Uncertainty around final Market Renewal design, and any reactionary changes to those rules following launch (as was the case with initial market liberalization) creates significant risk for proponents.
- The IESO is proposing a contract with few contractual offramps for suppliers. This is concerning given the rushed timelines set by the IESO, layered on top of extremely challenging development conditions. The IESO should introduce additional offramps for suppliers (Outlier network upgrade costs, supply chain disruptions, etc.) provided Suppliers can demonstrate reasonable commercial efforts were taken to mitigate these circumstances. The definition of force majeure should include supply chain bottlenecks and connection delays.
- The IESO's continued use of a hedge structure with thresholds that trigger an all-or-nothing payment (or claw back) remains problematic. A difference of a couple cents will have little impact on a project's market revenues but may have a significant impact its contract revenues at price spreads around the thresholds. In this way, the IESO's proposal adds contract risk, while failing to adequately mitigate market risk. 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. 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 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.
- The IESO was formerly targeting to procure 500 to 1,000 MW of capacity from its combined Upgrade and Expansion procurement. Given Expansions have since been migrated to the Expedited procurement, the IESO should consider revising its capacity targets amongst its various procurement mechanisms.
- Bid security due at bid proposal is very high, especially in consideration of the ongoing changes to the RFP and contract that leave little time for proponents to address prior to bids being due. This may dissuade otherwise viable projects from participating in the RFP. Bid proposal securities could be reduced, with those securities instead stepping up at a later stage of the process (like contract execution).