

Feedback Form

Long-Term RFP – November 7, 2022

Feedback Provided by:

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Following the November 7th public meeting on the Long-Term RFP, the Independent Electricity System Operator (IESO) is seeking feedback from participants on the proposed deemed generation model.

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

Please provide feedback by November 14, 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.

Thank you for your contribution.

Deemed generation model

Topic	Feedback
Do you support the proposed approach with fixed VOM and CRE value? Please explain why or why not.	
Do you have any feedback on the use of non-continuous 4 hours in the model?	
Is there anything further you recommend be considered with respect to the implementation of this alternative model?	
Do you have any general feedback on the two models presented, including any feedback on financeability?	
Do you have any feedback on potential market and operational impacts between the two models?	

Materials Cost Index Adjustment (MCIA): Lithium

Topic	Feedback
Do you have any feedback on the appropriate weighting for lithium in the MCIA?	

General Comments/Feedback

Thank you for the opportunity to provide comment on this proposed alternative revenue model for the E-LT1 RFP.

In response to concern from our members regarding the infeasible “Claw Back/Top Up” Capacity Payment Adjustment Mechanism presented by the IESO at the June 9, 2022 stakeholder meeting, and recognizing the importance of offering some form of energy price hedge option for storage resources, the Canadian Renewable Energy Association (CanREA) took the initiative to bring forward an alternative energy price hedge proposal, in a formal written submission to the IESO procurement staff on August 3, 2022, with the intention of eliciting further discussion between the IESO and stakeholders. At that time, we were advised that the proposal would not be considered further.

This “CanREA proposal” is a variation on the Long-term Resource Adequacy Agreement with Energy Settlement energy storage contract model from PG&E’s recent resource adequacy procurement in California, and is also conceptually similar to the IESO “Clean Energy Supply” (CES) and similar imputed dispatch contracts.

Under this revenue model, energy storage resources would have the monthly sum of imputed net daily energy market revenues for each day that they were contractually obligated to offer into the market deducted from the monthly capacity payment, such that the total monthly payment amount remained fixed for the duration of the contract term regardless of energy market revenues. Imputed net revenues would be calculated as the difference between revenues from discharging during the 4 highest-price hours (based on day-ahead Locational Marginal Price), and the cost of charging during the lowest-price hours, factoring in regulatory charges and any variable operations and maintenance costs. It would thus be incumbent on suppliers to operate in accordance with the day-ahead LMP to capture these revenues during each day in which they were deemed to be economic.

In our original written proposal on the alternative revenue model, CanREA had suggested that round-trip efficiency (RTE) and variable operations and maintenance (VOM) costs could be bid in separately by proponents. However, we acknowledge that this would have given rise to significant bid evaluation challenges, as would the considerable difficulty of comparing different energy storage resource charge/discharge durations, particularly with respect to charging capacity constraints at different points of interconnection.

While the capacity-only contract structure is much simpler, it is also beset with its own limitations and risks in terms of merchant revenues in the context of Ontario’s extraordinary energy market uncertainty.

The unfortunate reality is that it is extremely late in this procurement process to only now begin to examine an alternative revenue model for energy storage resources, and more time would be needed to properly consider other options beside the capacity-only contract design. It is also important to note that, since discussion of alternative revenue models was foreclosed early in the design process, only the capacity-only contract design has been assessed by prospective lenders.

Recognizing the extreme urgency of Ontario's resource adequacy needs, our highest priority at this point is to avoid any further delays in the E-LT1 RFP process and the awarding of contracts, so that suppliers can get on with building projects to meet the challenging 2025 COD requirement.

We therefore recommend that, in a choice between the deeming model presented to stakeholders at the November 7 meeting and a capacity-only contract design, the IESO should proceed with exclusively offering a Capacity-only contract in the Expedited procurement.

That said, we would urge further consideration of alternative constructs for energy storage resource participation be undertaken by the IESO in consultation with stakeholders, as this could provide important long-term benefits in terms of improved ratepayer value.