

November 14, 2022

Independent Electricity System Operator
120 Adelaide Street West, Suite 1600
Toronto, ON
M5H 1T1

RE: Comments on November 8, 2022, Version of Draft E-LT1 RFP and Contract

Dear IESO E-LT1 RFP Team,

Potentia Renewables Inc. (Potentia) wishes to thank the E-LT1 RFP Team for its on-going commitment to stakeholder consultation and engagement. We appreciate the changes that were made in the most recent November 8, 2022, version of the Draft E-LT1 RFP (the RFP) and Contract (the Contract) documents to address many of the concerns expressed by Proponents. The following submission addresses our key remaining concerns related to the RFP and the Contract.

Contract Payment Structure

Potentia does not support the revised Contract payment structure proposed by IESO in Exhibit M to the Contract and presented during the November 7, 2022, stakeholder engagement meeting (the “Deeming Payment Mechanism”). We have major concerns with the level of risk the Deeming Payment Mechanism introduces to revenue certainty. Specifically, the Deeming Payment Mechanism assumes the perfect operation of the storage system 100% of the time, which is operationally unrealistic. The Deeming Payment Mechanism will penalize Proponents for any charge/discharge scenarios that do not perfectly align with the highest/lowest priced hours by clawing back the Fixed Capacity Payment by a greater amount than the realized energy revenue. This will present significant issues during project financing. Further, the IESO’s proposal to set a uniform CRE and VOM ignores that different OEMs and equipment suppliers have differing round-trip efficiency warranties and O&M cost considerations. Finally, Potentia strongly believes there is insufficient time to fully diligence the Deeming Payment Mechanism and to make the necessary changes needed to make it more suitable. Potentia strongly supports staying with the Fixed Capacity Payment model that was presented by the IESO in the August 25 and October 17 versions of the Contract.

Market Rules Protection

Potentia acknowledges the recent changes to Section 1.6 of the Contract to introduce protection to Proponents through an adjustment to the Fixed Capacity Payment. However, we do not agree with the cap of ten percent. Apart from being much narrower than previous IESO contracts, the cap is arbitrary. The adjustment to the Fixed Capacity Payment should not be capped and should reflect the actual amount required to recover the Storage Disincentive Lost Net Revenue.

Investment Tax Credit

Potentia supports a Contract provision enabling Successful Proponents to reconvene with the IESO to renegotiate the Fixed Capacity Payment following the passing of enabling legislation of the Investment Tax Credit (ITC). While the announcement of the ITC is generally positive, there are too many unknowns for how it will be implemented with regards to qualifying dates and cost categories. There is too much uncertainty at this time to make an accurate assumption of how the ITC should be treated in financial models.

CIB Financing Product

Potentia is well aware of the benefits that a Canada Infrastructure Bank (CIB) financing product can bring to a project. In fact, through one of our affiliates, we are one of the successful proponents in the recent Nova Scotia Rate-Based Procurement (NS RBP) where a CIB financing product was assumed. However, there are two significant differences between the NS RBP and the IESO E-LT1 procurement process. The first is that the NS RBP was a typical take-or-pay Power Purchase Agreement with no market revenue assumptions or imminent market rule changes. The second key difference is that the NS RBP contained no proposal security. This allowed proponents to comfortably assume the CIB financing product in their bids despite the lack of commitment from CIB. The IESO and CIB should not overlook the importance of this key difference. Potentia proposes that the IESO allow Proponents to bid two Fixed Capacity Payments, one price benefiting from CIB financing and one without CIB financing. This will negate the need for an off-ramp, which we understand is not preferred by IESO, while giving Proponents the certainty of a non-CIB Fixed Capacity Payment should the CIB financing product become unavailable, changed or simply not workable.

Proposal Security

Potentia supports the quantum of Proposal Security. However, given the relatively high amount, it is of the utmost importance to remove several of the significant uncertainties that remain within the Contract which Potentia has identified in this submission.

We look forward to continued involvement in the IESO E-LT1 procurement program. Please let us know if you require any clarification on our submission.

Best Regards,



Andrea Garcia
AVP, Project Development

