

Feedback Form

Resource Adequacy webinar – January 26, 2021

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Following the January 26, 2021 engagement webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following items discussed during the webinar. Background information related to these feedback requests can be found in the presentation, which can be accessed from the [engagement web page](#).

Please submit feedback to engagement@ieso.ca by February 17, 2021. If you wish to provide confidential feedback, please submit as a separate document, marked "Confidential". Otherwise, to promote transparency, feedback that is not marked "Confidential" will be posted on the engagement webpage.

Feedback Requested Topic	Feedback
<p>Does the proposed process to set acquisition targets and select competitive mechanisms align with stakeholder needs?</p>	<p>TC Energy appreciates the opportunity to provide feedback to the IESO on the Resource Adequacy engagement and future competitive acquisition processes. There are many features of the proposed process that TC Energy believes the IESO must address to ensure the success of future acquisition mechanisms.</p> <p>First, the IESO proposes to potentially “conduct a sector scan to assess the market conditions and to better understand resources that may be available to meet system needs” (slide 36). A sector scan may provide high-level information on the resources available and rough estimates of resource costs. A sector scan cannot provide detailed and precise cost and availability information about specific resources that can offer electricity services to meet identified system needs. To receive the best information, the IESO should move expeditiously to open an acquisition mechanism that will allow proponents to focus the design and cost estimates of their resource to meet the system need. There are significant changes underway in the electricity sector with emerging technologies and innovative solutions becoming available to meet the future needs of the power system. Launching an acquisition mechanism provides support for proponents to seek and receive investment funds required to put forward the most competitive offers to the IESO. Price discovery through a procurement is the most accurate way to inform the IESO on the current costs and resource capabilities to meet future system needs. In addition, a procurement of resources will provide secondary benefits to the Ontario electricity market (e.g., participation in other services) that can lower overall cost to customers. Moving promptly to launch an acquisition mechanism instead of relying on sector scans also provides a positive feedback loop for the IESO in future procurement processes. With each procurement iteration, any shortcomings in the procurement process can be identified and addressed. Adjustments to the procurement process, compensation framework and obligations under the contract can be made that will help ensure the IESO gets the best resources under the best terms for the province. Relying primarily on a sector scan that leans on existing contracts/procurements/program risks the IESO receiving a</p>

narrow view of the options available to meet Ontario's future electricity needs. There is limited opportunity through a sector scan for new and emerging resources to offer detailed information to the IESO.

Second, the IESO states on slide 48 *"When a need has been identified that cannot be met by existing assets or readily-deployable assets, the IESO may need to facilitate this investment through a procurement with a longer-term contract"*. Limiting the available options to meet system needs initially to existing or readily-deployable assets restricts participation and vastly reduces the benefits of competitive procurement. The IESO should always look for opportunities to determine if new resources can offer better value compared to existing resources. This is particularly true for the challenges facing the Ontario electricity system. Different demand patterns due to new customer types, emerging technologies, and flexible demand resources means the needs of Ontario's power system are changing (e.g., greater emphasis on flexibility). New resources, such as energy storage, may be better suited to address the system needs compared to existing resources. In addition, the IESO has provided no definition for "readily-deployable" assets. Proponents of new resources are prepared to ensure their projects will be ready to deliver electricity services by the need date; however, there is a cost to development that cannot be justified without a clear procurement process to link to. The IESO cannot expect resources to become readily deployable without a commitment to an acquisition mechanism and a timeline that is open to new resources.

There is a lack of clarity on how the IESO will define how many resources will be procured within the different acquisition tranches (i.e., short-, medium-, and long-term). The acquisition process must elaborate on how the IESO will determine how many resources to pursue in each tranche. Further, the IESO should provide information on how diversity of resources to meet changing policy needs (e.g., lower emissions) may influence the resource acquisition objectives and process.

Finally, the IESO process has not adequately linked regional system needs with bulk system needs. Proponents are

	<p>interested in understanding how the IESO will determine when to proceed with transmission system expansion to address regional needs versus supporting development of resources that address both regional and global system needs.</p>
<p>Is there any additional information that the IESO should consider including in the Annual Acquisition Report (AAR) to help participants make investment decisions?</p>	<p>There are two areas of additional information that the IESO should consider including in the AAR.</p> <p>First, the time required from start of a procurement process to a selected resource reaching commercial operation can take many years. The AAR should describe the expectations for different milestones within a future procurement process so that proponents can understand when to start preparing for a proposal submission. This is critical if the IESO expects to assess resources based on non-price factors, such as community engagement or environmental approvals. The IESO should plan for the ability of participants to review and comment on procurement documents to ensure the objective of the procurement is understood and to resolve any errors or omissions.</p> <p>Second, the AAR should provide a status update on any active or completed procurements. Status of resources under construction will help proponents forecast future system need and therefore investment opportunities. Information on delays or complications with resources under construction can help future participants manage resource development risk better.</p>
<p>What are the timing considerations from a stakeholder perspective with respect to the AAR?</p>	<p>As TC Energy has stressed in previous submissions, the establishment of a governance structure is a priority. Transparency on the decision process by the IESO to initiate acquisition mechanisms, including sole source decisions, is needed to support confidence of proponents and investors to participate.</p> <p>As discussed above, the AAR must recognize the lead time required to prepare projects for competitive procurement and to reasonably construct the project by the system need date. The Annual Planning Outlook clearly indicates that a system need is emerging by 2026. For the IESO to publish procurement documents, proponents to prepare proposals, and successful resources to be constructed, the IESO must</p>

move promptly to launch a procurement process. A proper governance structure along with embracing iterative procurement processes can support the IESO in meeting the system needs in a reliable and cost-effective manner.

Finally, the IESO should recognize that procuring resources prior to the specific need date is not a wasted investment. There are additional value propositions that resources can offer the electricity market in the lead up to a resource adequacy need date. Delaying a procurement to try to perfectly time commercial operation of a resource with an exact system need date can lead to tight construction timelines that would limit proponents' flexibility to deal with unforeseen circumstances (such as public health issues, for example), and decrease the ability to manage unforeseen changes in supply-demand balance.

Are there any concerns with the proposed Capacity Auction enhancements?

Along with the establishment of a minimum floor for capacity procured annually, will the IESO explore an upper ceiling that would limit the amount of capacity procured through the CA (which would not be locked in for the longer term)? In other words, will the IESO provide further insight on the amount of capacity that would be acquired through short-term mechanisms versus long-term acquisition mechanisms, and the reasoning behind those decisions.

General Comments/Feedback

In previous submissions to the IESO, TC Energy emphasized the importance of a governance structure and commitment to transparency to ensure the resource adequacy framework is successful. The responses to stakeholder feedback on governance and transparency have not addressed TC Energy's concerns. The process of making decisions on procurement objectives and acquisition mechanisms must be robust and transparent to ensure participant and investor confidence. The IESO should provide details on how they reached their conclusions, be prepared to share analysis publicly, and be open to re-examining their conclusions if reasonable omissions or issues are raised by proponents. Put another way, while we recognize the urgency of moving forward expeditiously with acquisition planning, moving forward with acquisition decisions before an adequate governance framework is in place is putting the "cart before the horse".

In addition, coordination with policy makers and regulatory agencies is paramount for the success of the resource adequacy framework. The IESO should work with key stakeholders to ensure all are informed and prepared to support the deployment of the resource adequacy framework to meet Ontario's system needs.

Finally, any sole-source procurement decision by the IESO requires oversight and a prudency review. In TC Energy's opinion, there must be transparency in the process to understand a number of key decisions:

- 1) Reasons why the IESO determined it needed to pursue a sole-source procurement and forgo the benefits of competitive procurement
- 2) What alternative options did the IESO explore and why those options were eliminated
- 3) Analysis demonstrating the cost-effectiveness and/or viability of a sole-source procurement outweighs a competitive procurement with multiple resources.

An option to provide oversight and prudency for the decision to pursue a sole-source procurement is for the IESO to submit their analysis and conclusion to the Ontario Energy Board (OEB) for an adjudicated review process. The OEB can offer the IESO an orderly process to present the reasons for pursuing a sole-source procurement. An OEB adjudicated process can also offer stakeholders the opportunity to ask questions about the decision and confirm the analysis completed by the IESO. Overall, an OEB-led adjudicated process can provide support for the IESO's decision and ensure confidence in the Ontario electricity market.

Without a governance structure, transparency, and a proper review process on sole-source procurement decisions, the resource adequacy framework risks Ontario being viewed as a less viable opportunity in the future for investors and resource developers.