

Feedback Form

Resource Adequacy webinar – March 22, 2021

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Following the March 22, 2021 Resource Adequacy engagement webinar, the Independent Electricity System Operator (IESO) is welcoming feedback from stakeholders on the items discussed during the webinar. The webinar presentation and recording can be accessed from the [engagement web page](#).

Please submit feedback to engagement@ieso.ca by April 14, 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.

General Comments/Feedback

Atlantic Power is an independent power producer that owns power generation assets in two Canadian provinces and 11 states in the United States. Our generation fleet consists of 21 power projects totaling approximately 1,718 MW. The company has expertise in operating most generating asset classes including biomass, natural gas, and hydroelectric facilities.

Our generation fleet in Ontario includes five facilities with an aggregate generating capacity of 168 MWs, including power plants in Hearst, Tunis, North Bay, Kapuskasing, and Nipigon. Of these facilities, North Bay and Kapuskasing have been idled without contracts since 2017 and Nipigon's contract is set to expire at the end of 2022. Since 2017, the Ontario electricity market has failed to provide a market structure and pricing necessary to return North Bay and Kapuskasing to service. We currently expect that Nipigon will also cease operations at the end of 2022.

On December 17, 2021, the IESO released its Annual Planning Outlook (APO). This report shows a need for new build generation capacity as early as 2026. This capacity requirement assumes that existing and soon to be off-contract generation remains available to IESO. To the extent that off-contract generation is not available, the requirement for new capacity could occur as early as 2024. If one assumes a typical development timeline for site acquisition, planning, permitting and construction of new generation resources, it is unlikely that new generation resources will be available prior to 2026. Meeting a 2026 in-service date for new generation would require power plant developers to commit to an accelerated, costly and risky development process now without a functional merchant market or contracting structure in place. Based on current IESO plans and schedules, we believe the probability is low that new competitively sourced generation will be available to meet 2026 demand requirements.

Meeting 2026 demand is likely to be further complicated by the large amount of operating renewable resources. Low cost, flexible and reliable gas generation capacity enables a cost-effective integration of renewable resources. Intermittent wind and solar generation combined with 4-5 hour battery storage is likely to dramatically increase the cost of electricity to rate-payers and make the grid more unreliable.

We believe that re-contracting existing natural gas facilities is the best and most economic option for achieving high levels of renewable integration for two reasons. First, in the current environment, it will be difficult to permit and construct new gas fired generation in any reasonable timeframe. Second, as more renewable generation is built and capacity factors of necessary firm gas plants fall, older, less efficient but fully depreciated gas plants will compare favorably to new capital intensive and more efficient gas plant. Fully depreciated plants will also require much shorter contract terms and commitments from rate-payers.

For the above reasons, we believe that:

- New reliable generation capacity cannot be developed and placed in-service to meet demand requirements prior to 2026 and that absent an accelerated contracting regime, a 2026 in-service date for new generation is unlikely.

- If off-take contracts were available now, the current political environment makes it unlikely that new gas-fired generation plants will be permitted by 2026.
- Compared to a new build gas plant and batteries, existing, fully depreciated, reliable, and flexible gas-fired generation provides rate-payers with a lower cost option to meet firm capacity requirements.
- A significant portion of existing and soon to be off-contract gas-fired generation plants are at risk of closing, some imminently, unless the IESO provides generators with the necessary incentives to remain available or in-service.

Recent developments in California and ERCOT demonstrate the impacts of poor planning, improper market design, short-term thinking, and a lack of incentives necessary to properly maintain power plants. We urge the IESO to learn from these mistakes.

With respect to the Resource Adequacy construct more specifically, we find the current approach of utilizing the capacity auction as the only near-term mechanism to incentivize generating assets to remain operational to be wholly insufficient to maintain the generation capacity required to meet Ontario's demand requirements beginning in 2023.

In conclusion, given the current looming capacity needs in the province, the preference for short term contracts, combined with the political challenges of siting and permitting new gas generation, we strongly urge the IESO to consider the importance of maintaining uncontracted gas generation in the near term. The current tools put forward, including the capacity auction, provide insufficient signals for companies to maintain these facilities in the market. Without additional options, such as short-term contracts, Ontario will see these facilities close and face higher costs for new build capacity in the future.

Atlantic Power supports the efforts by the IESO to improve market signals and inducement mechanisms, but still strongly believes that the near-term signals are wholly insufficient to maintain existing capacity, create critical competition, protect reliability, and signal investor confidence. We look forward to working together with the IESO and government to address some of these near-term deficiencies and improve market confidence.