

Feedback Form

Small Hydro Program Workshop, May 19, 2022

Feedback Provided by:

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To promote transparency, feedback submitted will be posted on the IESO webpage unless otherwise requested by the sender.

Following the (Thursday, May 19, 2022) Small Hydro Program Design Outreach Session, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following discussed items. 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 Thursday, June 2nd. To promote transparency, feedback provided will be posted on the engagement webpage.

Small Hydro Program – Capacity Payments

	Topic	Feedback
1.1	What feedback do you have on the payment structure as it relates to a capacity payment plus an energy payment with a floor and a ceiling?	We appreciate the IESO's work to develop a payment structure that reflects the energy as well as capacity values provided by small hydro facilities. However, the proposed structure will still add significant complexity for the generator and the Program administrator. The IESO has recognized that the vast majority of the facilities have little operational flexibility due to water management limitations. Most of these facilities, purpose-built decades ago, were specifically designed to optimize the production of energy over an annual hydrologic cycle. Bundled energy contracts remain the simplest structure for these facilities. In addition, the proposed Program design and pricing should be relatively equitable across the fleet of facilities.
1.2	What feedback do you have on the assumptions for the reference case used in developing the payment structure? Specifically, what feedback do have on the reference case regarding: an appropriate split between the capacity payment revenue verses the energy payment revenue; the assumed capacity factor; the energy floor price?	The proposed structure appears to disproportionately penalize high capacity factor facilities. To address this, rather than using nameplate as the basis for the calculation, it is suggested that a facility's actual seasonal capacity factor, as derived over a significant time period of energy production (5-10 years), be used as the basis for the derivation of the capacity portion of the revenue stream. Both the reference energy floor price (\$20) and ceiling (\$45) seem appropriate, applied to generation on a monthly basis and adjusted over time for inflation. The relative split between capacity and energy revenues (70%/30%) using the energy floor price as the basis for the calculation seems appropriate.
1.3	What feedback do you have regarding setting the fleet wide capacity factor benchmark at 40%? (Below this capacity	It remains unclear whether this is proposed as an annual benchmark (i.e. determined based on annual production). We recommend that the Reference Capacity Factor (RCF) be applied on an annual basis. Hydrology and corresponding plant capacity factors can vary +/-30% in any given

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	factor, capacity payments will be reduced)	year for a run of river plant in Ontario. If the intent is not to penalize plants for poor hydrology, then the annual RCF should be 25% to 30%, to provide a bandwidth on the base line case.
1.4	What feedback do you have regarding the energy ceiling concept and price?	The concept has merit within the proposed framework. Generation against the floor and ceiling prices should be assessed on a monthly basis and the floor and ceiling should be adjusted to CPI annually.
1.5	What feedback do you have regarding an appropriate percentage of the capacity factor for which an escalation factor (Ontario all-items CPI) should apply? What is the justification for the percentage you are recommending?	Both the capacity payment and the energy floor and ceiling price should be 100% indexed to the Consumer Price Index, as is the case with existing contracts, to support the required sustaining capital investments for these perpetual assets. While capex is "lumpy" over the life of a contract, in general it will be spread out over the time period, so full inflation is justified. Some facilities will require greater capital investment later in the new contract term and will be subject to higher materials and labour costs at that time. The IESO should have one-on-one discussions with eligible facilities to confidentially understand this commercially sensitive information.

Small Hydro Program – Dispatchability

	Topic	Feedback
2.1	What feedback do you have on the approach to enhance payment for dispatchable facilities (increase capacity payment by X%, increase ceiling price or revenue share above ceiling price)? In your response, please note if you are a dispatchable facility / intent to become one as this	Dispatchable generators should have the option to determine which approaches are best suited to individual facilities.

	Topic	Feedback
	design feature may only impact a very small portion of facilities.	

Small Hydro Program – Tranching

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3.1	What feedback do you have regarding the recognition of economies of scale by providing an adjustment to the capacity payment of facilities under 1MW? What feedback do you have regarding an appropriate adder (in terms of a % of the capacity payment)?	Innergex’s facilities are over 1 MW, but we support the recognition of economies of scale by providing a 10% adder to the capacity payment of facilities under 1MW. Smaller facilities are subject to the same legislative, regulatory and policy requirements as all other facilities and therefore bear a disproportionate financial burden.

Small Hydro Program – Contract Length

	Topic	Feedback
4.1	What feedback do you have regarding the option to terminate existing contracts and sign into the program at any time, with all contracts ending 20 years from	We support this concept but recommend that there be a third option – that a current facility owner is permitted to sign a new contract at any time for the period between the expiry of the existing contract and May 2043. This is particularly relevant for facility owners who have recently invested in expansions under the provisions of their existing contracts and require the current revenues to support that previous investment.

	Topic	Feedback
	program opening (ie. May 2043), regardless of when a contract is signed?	

Small Hydro Program – Community, Conservation Authority & Indigenous Ownership

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5.1	What feedback do you have on a minimum Indigenous, Conservation Authority or Community ownership stake to qualify for an enhanced payment?	We recommend that eligibility for an enhanced payment begin at a 10% Indigenous equity ownership level. Indigenous communities may begin with a minority position in a facility and use the revenue from the facility to increase the ownership stake over time. A 10% ownership stake in a facility can provide a material revenue stream to support this as well as broader community objectives.
5.2	What feedback do you have on the maximum value of an adder (in the case of 100% ownership by an Indigenous Community, Community or Conservation Authority)?	There should be a sliding scale applied to the adder based on the level of ownership, consistent with previous approaches. Under those initiatives, the maximum value of community equity participation was approximately 10% (1.5 cents per kwh). The maximum under this Program should be similar. Facilities where an Indigenous nation is the majority owner (above 50% ownership) should receive the maximum value adder to reflect their controlling stake in the project.

General Comments/Feedback

	Topic	Feedback
6.1	Please provide any additional comments or feedback that would assist in the design,	There should be a discussion on the ownership of environmental attributes, particularly given the IESO's work on recommendations for the design of a Clean Energy Credit Registry.

Topic	Feedback
development and implementation of a Small Hydro Program	In addition, the IESO is currently proposing to settle existing contracts on the Ontario Zonal Price (rather than the locational marginal price) post market renewal. This approach should be brought forward for consideration in detailed Program design.