

Market Renewal Contracts Webinar Response to Stakeholder Feedback

On October 31, 2017 the IESO held an information webinar on the Market Renewal Program aimed at Electricity Supply Contract holders, who are also Market Participants. During this webinar, the IESO provided an overview of the Market Renewal Program and discussed at a high-level the potential implications to existing contracts. A recorded presentation of the webinar is available [here](#). At the conclusion of the webinar, the IESO invited stakeholders to provide feedback on the following questions

What contract issues do stakeholders see as priorities to be addressed now and what issues are dependent on actual designs/market rules?

What is/are the best forum(s) and processes to discuss Market Renewal and contract questions (open engagement, small committee, sector-specific, bilateral, Etc.)?

The IESO received feedback from the following stakeholders

Power Advisory LLC

Northland Power

Innergex

Association of Power Producers of Ontario (APPrO)

This feedback has been posted on the contracts webinar [webpage](#). A summary of feedback and the IESO's response is included in the chart below. The IESO appreciates the feedback received and will incorporate this into a plan and process to address contract issues and Market Renewal for 2018.

Issue Area	Company	Stakeholder Feedback	IESO Response
Future Contract Amendment	Power Advisory	Constructive meetings between IESO Contract Management and contract counterparties (i.e., "Suppliers") must be initiated well before the start of contract amendment negotiations. Early	The IESO agrees with the need for regular engagement and discussion with contract counterparties. Based on the feedback received in response to the webinar, it appears that most suppliers would like to be engaged in

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Negotiations		<p>dialogue through regularly scheduled meetings should strive to establish the scope of contract amendment negotiations by understanding the implications resulting from market rule changes, identification of contract provisions that will need to be amended, definition and clarity regarding key contract provisions (e.g., material and adverse impacts to Supplier’s Economics, etc.) relating to market rule changes, and timelines for contract amendment negotiations.</p> <p>Early clarity accompanied with rationale from IESO Contract Management regarding the process to amend contracts is essential. Members of the Consortium have experience with contract amendment negotiations within groups of Suppliers defined by ‘families’ of contracts (i.e., families of contracts have been defined by previous procurement initiatives (e.g., Renewable Energy Supply (RES), Feed-in Tariff (FIT), etc.)) and with single Supplier contract negotiations, and there are pros and cons to both approaches that need to be discussed with the IESO.</p>	<p>more focused group sessions that are specific to their contract types. The IESO will hold follow-up meetings with specific groups of contract holders over the coming months and then work with those groups to identify the frequency and nature of the meetings that should take place as the market design evolves.</p>
	Power Advisory	<p>The Consortium agrees with the MRP’s focus on improving the efficiency of the IESO-Administered Markets, and the “MRP [IESO] ... is not targeting to extract value from contracts” as a general principle for amending contracts. However, previous experience with contract amendment negotiations (e.g., dispatch of wind and solar generators) resulting from market rule changes did not meet this general principle. Therefore, the points made above regarding Future Contract Amendment Negotiations should be addressed to ensure that MRP-related market rule changes truly do not result in value being extracted from contracts.</p>	<p>The IESO reiterates that it is not targeting to extract value from contracts as a general principle for amending contracts as result of the MRP.</p>
Analysis and	Power	<p>We would like to know if the IESO has done any analysis to</p>	<p>The IESO agrees with the complexity in the design of the MRP and that</p>

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Assumptions	Advisory	<p>conclude that as a general principle the “majority of MRP implications may result only in mechanical contractual changes and only some may require complex solutions”. If so, the IESO should disclose this analysis. Based on the complexity of the fundamental changes to the existing design of the IESO-Administered Markets resulting from the MRP, at this time the Consortium is not convinced that the majority of MRP implications may result in mechanical contract amendments. Also, as point of clarification, what does “mechanical” mean in the context of contract amendments, and what implication will “mechanical” contract amendments have on Supplier’s Economics contract provisions?</p> <ul style="list-style-type: none"> Referring to slides 25 and 26 of the presentation, the Consortium is not convinced that the implementation of some form of Locational Marginal Price (LMP) for energy replacing uniform energy prices (i.e., five-minute Market Clearing Price (MCP), Hourly Ontario Energy Price (HOEP)) combined with the elimination of Congestion Management Settlement Credits (CMSC) (i.e., all through the Single Schedule Market (SSM) Workstream) will simply result in a “mechanical replacement through the price evolution of HOEP for most contracts”. 	<p>there will likely be changes that will require complex solutions. In our view, the term “mechanical” was meant to indicate that certain changes may be implemented without a need for extensive negotiations. The IESO believes that it would be in everyone’s best interest to aim to make changes as “mechanical” as possible, while being mindful of averting unintended consequences. Once the different work streams progress into the detailed design phase and as discussions with contract counterparties evolve, analysis of the different contract implications will need to be performed.</p>
	Northland Power	<p>The presentation states that the MRP “is not targeting to extract extra value from contracts”. While it is still very early in the process, our initial view is that we do not feel comfortable that there is enough information to fully support this statement.</p> <p>As an example: In addition to Locational Marginal Prices, the new market structure may have two prices - Day Ahead (DA) and Real Time(RT) at each node (if a DAM is adopted). As a result, there</p>	<p>As noted above, the IESO reiterates the principle that it is not targeting to extract extra value from contracts as result of the MRP. In our view, the term “mechanical” was meant to indicate that certain changes may be implemented without a need for extensive negotiations. The design process is still in early stages of progress and therefore, as an example, it is still unknown how transmission connected FIT contracted facilities will participate in the Day Ahead Market.</p>

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		<p>will be settlements related payments calculated in both the DA and RT Market. This will introduce additional risk. As an example, “energy only” FIT contracts that are transmission connected variable generators are currently dispatchable. As such, they must offer their energy in the Day Ahead Commitment Process (DACP) to establish an Availability Declaration Envelope. If, as a logical extension, they are also required to participate in both the future DA and RT Markets, they will receive a DA price and be required to settle out as per their activity in the RT balancing market. This introduces additional risks that suppliers did not expect to assume when these contracts were originally signed. As a result, extra value from these contracts may be extracted. A similar statement can be made for other capacity contracts (i.e. CES “style”, new NUG contracts, etc.).</p> <ul style="list-style-type: none"> • Our initial view is that the vast majority of Market Participant contracts will require more than mechanical contractual changes, and in fact will require more complex solutions as indicated on slide 23 of the webinar presentation. • We also do not understand how the new market structure (as being contemplated) will not extract additional value from existing generator contracts. 	
Timelines	Power Advisory	Referring to slide 28 of the presentation, the timelines to negotiate contract amendments should be moved forward to be in-line with the timeframe of nearly completed Detailed Design documents within the MRP Workstreams (e.g., SSM, etc.). Detailed Design documents will provide sufficient level of details regarding changes to the existing design of the IESO-Administered Markets, and therefore these documented changes will be able to accurately	The IESO is open to discussions and will continue to meet with contract counterparties during the high level design and detailed design phases of the different MRP work streams. The information required to have negotiation discussions will need to occur closer to the time that detailed design of the initiatives are more refined and understood.

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		signal clear and well-defined implications for contracts (e.g., material and adverse impacts to Supplier's Economics, as defined in many contracts).	
General	Power Advisory	The Consortium strongly supports the general principle relating to the IESO continuously working with Suppliers to understand contract implications.	Thank you for the comment and support. The IESO will work with all stakeholders and contract counterparties to understand the different contract implications due to MRP.
Priority Issues	Power Advisory	<p>Contract issues to be addressed now include, but are not limited to:</p> <ul style="list-style-type: none"> • Continuation of consultation with stakeholders and Suppliers building from the October 31 webinar; • IESO Contract Management should work with Suppliers to define and agree to principles regarding future negotiations to amend contracts; • IESO Contract Management should work with Suppliers to define and agree to a process to negotiate amendments to contracts; • IESO Contract Management and Suppliers should work to define "material and adverse impacts to Supplier's Economics" relating to future changes to IESO Market Rules resulting from MRP; • IESO Contract Management and Suppliers should work to define which contract amendments are likely to be "mechanical" and which contract amendments are likely to not be "mechanical" and therefore necessitate further analysis and dialogue to define the "material and adverse impacts to Supplier's Economics" within this context; and • Around the time of concluding applicable High-Level Design documents (e.g., SSM, etc.) in 2018, IESO Contract Management and Suppliers should engage in focused meetings to directionally determine the implications of 	Thank you for the comment and suggestions. As mentioned previously, The IESO is open to discuss with stakeholders high level issues resulting from MRP; however more focussed discussions will need to occur during the detailed design phase. This will be accomplished through contract type group discussions on a program basis initially and eventually targeted specific discussions.

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		<p>planned changes to the IESO-Administered Markets (e.g., implementation of LMP combined with elimination of CMSC, etc.) relating to potential contract amendments.</p> <ul style="list-style-type: none"> • Planned implementation of LMP combined with elimination of CMSC in replacement of HOEP/MCP and CMSC; • Planned implementation of a Day-Ahead Market (DAM); • Planned implementation of Incremental Capacity Auctions (ICAs) regarding any capacity incremental to contractually defined "Contract Capacity"; Any potential to define and implement Environmental Attributes (EAs) or similar (e.g., Renewable Energy Certificates (RECs)) as potentially defined within, for example, the Market Renewable Working Group's Non-Emitting Resource Sub-Committee; and • Any potential to define and implement any changes to, or planned development of, new ancillary services and/or applicable electricity products that may be captured under contractual definitions of "Related Products" and "Future Contract Related Products". 	
	Innergex	<p>"Mechanical contractual changes" (slide no. 23): When discussing the MRP's impacts on contracts, the IESO refers to "mechanical contractual changes". Has the IESO identified these potential "mechanical changes"? What are they?</p> <p>"Contract amendments" (slide no. 29): If the market rules prevail over Electricity Supply Contracts, why are contractual amendments required to implement the MRP's changes to the market rules?</p>	<p>As noted above, the term "mechanical" was meant to indicate that certain changes may be implemented without a need for extensive negotiations. The IESO believes that it would be in everyone's best interest to aim to make changes as "mechanical" as possible, while being mindful of averting unintended consequences.</p> <p>As part of MRP, certain market mechanisms will change. Depending on the extent that these mechanisms impact how the contracts interact with the market, adjustments to contract provisions may be required. At this</p>

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		<p>RES Contracts: We understand that the proposed MRP will not have any adverse impact on self-scheduling power generators that are parties to a Renewable Energy Supply Contract (“RES Contract”).</p> <ul style="list-style-type: none"> • Can you please confirm whether our understanding is correct? • In the negative, can you please identify how the MRP will impact self-scheduling power generators that are parties to a RES Contract? <p>Material adverse impact of the amendments: if contractual amendments triggered by the MRP have a material adverse impact on market participant’s RES Contract and operations, to the extent that it renders the market participant’s operations non-economical or non-bankable, will the IESO offer and pay economic compensation?</p> <p>Transitional period: Will the MRP include transitional periods during which market participants’ contractual rights will be unaffected by the MRP? When will amendments (if any) become effective?</p>	<p>point it is difficult to answer the more specific questions related to particular contract types and will therefore have to be analyzed in more detail as the market design evolves. The IESO is committed to understanding the concerns that various groups of contract holders may have, and will therefore be organizing follow-up meetings in the coming months.</p>
	APPrO	<p>With respect to Clean Energy Supply (“CES”) contracts, we believe that further dialogue in the following areas could be constructive at this stage:</p> <p>IESO’s position regarding the limited impact on Suppliers related to the Enhanced Real-time Unit Commitment (“ERUC”) stream. To the extent any analysis has been completed by IESO in this regard, it would be beneficial for stakeholders to review. We note that CES contracts have provisions to address general market rule changes</p>	<p>The IESO agrees that further dialogue is required and is therefore committed to meet with contracted counterparties during the high level design and detailed design phases of the different MRP work streams. In order to continue the discussion on the noted areas that may impact CES type contracts, the IESO will hold follow-up meetings with specific groups of contract holders over the coming months.</p>

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		<p>which are triggered by impacts to Supplier’s economics.</p> <p>IESO’s position regarding incremental capacity and the Incremental Capacity Auction (“ICA”). APPrO notes that for contracted resources the IESO has indicated that market participants will be entitled to offer incremental capacity into the ICA. Confirmation as to how this would apply to CES contract holders including implications related to existing contractual provisions discussing capacity auctions would be of benefit.</p> <p>Day Ahead Energy Market (“DAM”) and contract implications. Further discussion with the IESO regarding its approach to addressing contract implications raised by the DAM, including the impact to Supplier’s economics and potential methodologies and assumptions of the IESO in this regard would be of benefit.</p> <p>Locational Margin Pricing (LMP) and contract impacts. Similar to the DAM point above, APPrO would like to further discuss with the IESO its approach to addressing contract implications raised by LMP, including the impact to Supplier’s economics and potential methodologies and assumptions of the IESO</p> <p>Contract settlement proposal in the context of both a real time Locational Margin Pricing (LMP) and a DAM.</p>	
Forums and Process	Power Advisory	<p>Until High-Level Design documents are completed for respective MRP Workstreams, open engagements and meetings with multiple groups of Suppliers is encouraged and needed;</p> <ul style="list-style-type: none"> • After High-Level Design documents have been completed, IESO Contract Management should meet with groups of Suppliers (e.g., based on organization of Suppliers (e.g., 	<p>The IESO agrees with the need for regular engagement and discussion with contract counterparties. Based on the feedback received in response to the webinar, it appears that most suppliers would like to be engaged in more focused group sessions that are specific to their contract types. There will eventually be a need for bilateral discussions, but likely not until the design is well advanced.</p>

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		<p>this Consortium), families of contract-type, etc.); and</p> <ul style="list-style-type: none"> • Upon near completion of Detailed Design documents, IESO Contract Management will be able to more clearly determine potential implications for contract amendments (with input from Suppliers) and should then work with Suppliers to determine how to refine the process and organization to begin contract amendment negotiations (e.g., remaining within groups or Suppliers and/or with some individual Suppliers); at a minimum, this process might necessitate contract amendment negotiations based on IESO defined electrical zones where Suppliers' facilities are located. 	
	Innergex	<p>We would appreciate being invited and participating in sector-specific working groups (open style) attended by self-scheduling power generators parties to similar RES Contracts.</p> <p>We would also appreciate having bilateral private discussions with the IESO about potential impacts, if any.</p>	<p>The IESO agrees with the need for regular engagement and discussion with contract counterparties. Based on the feedback received in response to the webinar, it appears that most suppliers would like to be engaged in more focused group sessions that are specific to their contract types. There will eventually be a need for bilateral discussions, but likely not until the design is well advanced.</p>
	Northland Power	<p>It is our initial opinion that the best forums to discuss Market Renewal and contract questions are within sector-specific meetings. This will ensure a more efficient forum because:</p> <ul style="list-style-type: none"> • There will be similar contract holders/stakeholders participating who have similar concerns, • The stakeholders will be better versed in their specific contract lingo, and • This forum and process may better align with the processes detailed in many generator contracts 	<p>The IESO agrees with the need for regular engagement and discussion with contract counterparties. Based on the feedback received in response to the webinar, it appears that most suppliers would like to be engaged in more focused group sessions that are specific to their contract types. There will eventually be a need for bilateral discussions, but likely not until the design is well advanced.</p>

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		<p>Our initial view is that the other forum options listed would be less effective because:</p> <ul style="list-style-type: none"> • Open Engagement (i.e. attendance by loads, generators, other stakeholders) would not be as productive because of the lack of common understanding of even the non-confidential information that makes up the sector's generator contracts • Small committees are not recommended because they may not be able to adequately represent all issues of all contracts in their sector • Bilateral meetings would only be appropriate during the specific and confidential contract amendment process and not during the general discussion phase 	