

Power Workers' Union Submission on the IESO's November 2021 Resource Adequacy Engagement

December 14, 2021

The Power Workers' Union (PWU) is pleased to submit comments and make recommendations to the Independent Electricity System Operator (IESO) regarding its November 23rd Resource Adequacy Engagement webinar. The PWU remains a strong supporter and advocate for the prudent and rational reform of Ontario's electricity sector and recognizes the importance of planning for low-cost, low-carbon energy solutions to enhance the competitiveness of Ontario's economy.

The webinar addressed four topics: Status of the 2021 Annual Acquisition Report (AAR) and planned actions; overview of the capacity auction; the long-term (LT) procurement mechanism; and, a discussion on procurement fees. The PWU's comments are focused on design decisions associated with the LT request for proposal (RFP).

The PWU recognizes that the IESO has not fully reviewed our previous feedback but appreciates that some comments from previous engagements have been incorporated into the RFP design, especially the inclusion of the types of need and their attributes. However, the PWU remains concerned that the proposed design for the LT RFP will not achieve a competitive procurement for the resources required and will lead to sub-optimal procurement decisions.

Since the IESO began developing the LT RFP, the Ministry has provided new direction:¹

- Evaluate a moratorium on the procurement of new natural gas generating stations in Ontario;
- Develop an achievable pathway to phase-out natural gas generation and achieve zero emissions in the electricity system with respect to the positive or negative effects this would have on electrification of the broader Ontario economy;
- Expedite the stakeholder engagement phase of the procurement processes given that new-build projects require significant lead times for their development to address the urgency of the capacity gap; and,
- Design the LT RFP to be technology agnostic and allow all technologies to participate, as long as the proposed new-build facilities can provide the required services to the electricity system.

As demand from electrification of the economy grows, Ontario may need to progressively develop more non-emitting supplies to address the implications of these directives.²

This would present several challenges to the LT RFP design proposed by the IESO:

- 1) Timing of the Request for Qualification (RFQ) and its proposed binding nature is at odds with the goal of cost-effectively decarbonizing Ontario's electricity grid;
- 2) Forward period to facility operations and contract commitment lengths inhibit the participation of the new large-scale generation solutions that Ontario needs; and,
- 3) The competitive capacity style contract approach non-transparently discourages non-emitting supplies and does not incent the important societal benefits inherent in enabling Ontario to successfully address climate change.

¹ Letters from the Ministry of Energy to the IESO dated Oct 7 and Nov 10, 2021

² Strapolec, Electrification Pathways for Ontario to Reduce Emissions: Procuring Ontario's Energy Future, 2021.

The PWU recommends that the IESO undertake the following actions:

1. Revisit the binding nature of the RFQ given the uncertainty associated with the timing of the gas-phase out study and its outcomes;
2. Frame the RFQ in accordance with how long-term sustained needs for new generation could unfold;
3. Provide greater flexibility for RFQ participants to lay out forward periods and contract commitments that would enable their participation in the RFP; and,
4. Invite bidders to identify risks they perceive in the capacity style contracts for their bids and the alternative contracting forms they recommend be included in the RFP.

Recommendation #1: Revisit the binding nature of the RFQ participation given the uncertainty associated with the timing of the gas-phase out study and its outcomes.

The first step of the proposed design of the LT RFP mechanism is the issuance of an RFQ to interested applicants scheduled for early- to mid-2022. The IESO intends for the RFQ to be “binding” on participants in order to limit the resources that may be eligible to participate in the subsequent LT RFP. Furthermore, the design parameters being proposed for the RFP will further determine what resources are eligible to respond to the RFQ. The IESO has indicated it expects that renewables combined with storage will participate which the PWU has previously noted biases the RFP in favour of these options.³

Furthermore, the IESO’s development of an achievable pathway to phasing-out natural gas generation may impact on the long-term procurement needs. However, the IESO’s timeline for the LT RFP process will be complete before gas-phase out assessment is completed. The RFQ is scheduled to commence in early-2022 with the RFP beginning in Q3-2022, well in advance of the November 2022 deadline set by the Minister of Energy for the completion of the gas-phaseout study.

The stated objective of the RFQ stage is to ensure there are qualified interested parties. However, the role of the RFQ in the process is also to expeditiously start the process, gain information, and set up the RFP for early success. This is important given the government’s direction to the IESO to accelerate the process. Accelerating the process and the timeline for assessing gas-phaseout options would appear to conflict. While it is important to set the RFP up for success the pathway to subsequent LT RFPs appears to be off in the future. The next LT RFP is currently scheduled to occur after 2030. This leaves Ontario unprepared to address additional long-term needs that may emerge from the upcoming studies.

To accommodate these conflicting requirements while sustaining an accelerated program, the IESO’s RFQ should be non-binding and provide for new participants to bid on the RFP as Ontario’s needs are clarified and determined over the next 12 months. This approach would benefit from the IESO communicating within the RFQ the parameters under consideration in their studies and by providing participants with the ability to help inform the IESO and the final RFP as contingencies emerge. These benefits would be enabled by the following recommendations.

³ PWU submission to the IESO on Resource Adequacy October 2021 webinar

Recommendation #2: Frame the RFQ in accordance with how long-term sustained needs for new generation could unfold

The Ontario Minister of Energy directives included a request that the IESO determine the positive or negative effect that a gas phase-out would have on the electrification of Ontario's economy and achieving the province's climate goals. The results of the evaluation may not be available until after the RFP has been developed. Furthermore, the Minister, has asked the IESO to expedite their process on designing the LT RFP to allow time for new-build projects to be developed.

Previously, the PWU recommended that the IESO advance their procurement plans to ensure that resources can be procured to meet new emerging needs.⁴ By delaying procurement of the long-term resources required beyond 2028, the IESO is exposing Ontario to the significant risk that these resources will not be available when needed. In the absence of definitive answers, the RFQ should at least illustratively lay out the potential scenarios (timelines and specifications) of the needs that might need to be procured for by the RFP.

Including such information in the RFQ enables bidders to better inform the IESO regarding the best options for the RFP parameters once the assessments are confirmed by the IESO. This will help assure that the IESO will have the opportunity to procure the most cost-effective proposals over the timeframes of interest that will be determined and help minimize their planning risks.

Recommendation #3 – Provide greater flexibility for RFQ participants to lay out forward periods and contract commitments that would enable their participation in the RFP.

Previous PWU submissions described how the preliminary design of the LT RFP is biased against large-scale non-emitting resources.⁵ The short forward period of 4-5 years is insufficient to allow for large-scale generation types to be sited or built. Additionally, a short commitment length of 7-10 years does not provide enough assurance to developers of such large projects to recover their investments. Clarifying Ontario's long-term capacity needs as recommended above provides investors with the flexibility to identify the commitment requirements and lead times associated with their potential bids. This would provide the IESO with the best information regarding how to cost-effectively meet Ontario's needs while minimizing the risks of high-cost, short-term solutions.

Recommendation #4 – Invite bidders to identify risks they perceive in the capacity style contracts for their bids and the alternative contracting forms they recommend be included in the RFP.

As noted, the PWU has identified the IESO's use of capacity style contracts for all of its procurements as one that would relegate non-emitting supply options to being economically un-viable.⁶ The PWU agrees with the Minister of Energy's direction to the IESO that they set a procurement framework focussed on

⁴ PWU feedback to Resource Adequacy engagements: January, March, April, October 2021; November 2020.

⁵ PWU feedback to Resource Adequacy engagements: October 2021.

⁶ Strapolec, Electricity Markets in Ontario: An Examination of Mismatched Conditions and Options for Future Competitive Procurements, 2020.

energy system performance needs and that is transparent, fair and technology agnostic. Ontario needs an RFP that is better suited to meeting Ontario's energy needs⁷ and that:

- Procures resources based on Ontario's demand needs and the type of demand the RFP is intending to seek supply for (baseload, intermediate, peak)⁸; and
- Includes societal benefits, such as emission reductions and contribution to GDP⁹.

Closing

The PWU supports the IESO's efforts to develop a procurement framework for meeting Ontario's electricity needs. The PWU commends the IESO for the progress it has achieved developing the RFP to date. However, as highlighted in this submission, there are significant remaining risks with the proposed LT RFP that should be addressed by the IESO.

The PWU has a successful track record of working with other stakeholders in collaborative partnerships. We look forward to continuing to work with the IESO and other energy stakeholders to strengthen and modernize Ontario's electricity system. The PWU is committed to the following principles: Create opportunities for sustainable, high-pay, high-skill jobs; ensure reliable, affordable, environmentally responsible electricity; build economic growth for Ontario's communities; and, promote intelligent reform of Ontario's energy policy.

We believe these recommendations are consistent with and supportive of Ontario's objectives to supply low-cost and reliable electricity for all Ontarians. The PWU looks forward to discussing these comments in greater detail with the IESO and participating in the ongoing stakeholder engagements.

⁷ Strapolec, *Electrification Pathways for Ontario to Reduce Emissions: Procuring Ontario's Energy Future*, 2021.

⁸ PWU feedback to Resource Adequacy engagements: January, April, October 2021; September, November 2020.

⁹ PWU feedback to Resource Adequacy engagements: March, April 2021.