



March 3, 2017

Ms. Candice Trickey
Independent Electricity System Operator
Suite 1600, 120 Adelaide Street West
Toronto, ON M5H 1T1

RE: Comments on MR-00425 Real-Time Generation Cost Guarantee – Cost Recovery Framework

Dear Ms. Trickey,

Goreway Power Station (“Goreway”) appreciates the opportunity to provide comments on the proposed amendments to the Real-Time Generation Cost Guarantee (“RT-GCG”) program. Goreway continues to support a cost recovery program with fundamentals consistent with the original RT-GCG program; that is, recovery of actual costs. The proposed program rules may alleviate some of the administrative complexity associated with audits, but Goreway respectfully submits that if implemented, the changes may undermine market efficiency. Further, in addition to our submissions in this letter, Goreway supports the comments made by APPrO in its letter of March 2nd.

As an introduction to the detailed comments set out below, Goreway believes it is important to review certain aspects of the history of the RT-GCG Stakeholder Engagement. In August 2014 the IESO Market Assessment and Compliance Division (“MACD”) published an Interpretation Bulletin (“IB”) setting out their interpretation of the types of costs recoverable under the RT-GCG program. At that time Goreway, through APPrO, raised concerns that the IB was extra-jurisdictional to the IESO’s rule-making process and requested the IESO rescind the IB and initiate a formal Stakeholder Engagement in accordance with its OEB-approved process. The IESO agreed and the RT-GCG Stakeholder Engagement was initiated in 2015.

In its first presentation to stakeholders, the IESO described its initiative as a “[N]ew framework intended to clarify and increase the transparency for market participants of incremental costs eligible to be submitted for recovery under the program.”¹ Indeed, the principles of transparency and neutrality are required of the IESO in accordance with its principles of stakeholder engagement. Concerned that the IESO’s Framework Document did not adequately support these principles, APPrO reiterated its request that the IESO retain an independent and objective advisor to assist in the determination of eligible costs *prior* to designing proposed changes to the RT-GCG program. The IESO responded by assuring APPrO and stakeholders that the independent

¹ See page 6 of IESO presentation to stakeholders, October 27, 2015 available at <https://ieso-public.sharepoint.com/Documents/consult/RTGCG/RTGCG-20151027-Presentation.pdf>



consultant would be available to discuss and answer questions about their analysis at stakeholder meetings.²

Goreway respectfully submits that the principle of transparency was undermined by a concerning amount of opaqueness regarding the direction the IESO gave to its independent third-party consultant, HATCH Engineering. Over the last 16 months, market participants have provided substantial amounts of OEM evidence supporting the fact that planned maintenance costs associated with cyclic operations are wholly or substantially related to starts; almost all of this evidence has been rejected by the IESO and done so without the expected and required transparency. While Goreway respects the IESO's efforts to further the evolution of the program and the IESO market itself, it believes it is incumbent upon the IESO to support its own governance principles, and also necessary for continued confidence in the integrity of the market. Accordingly, Goreway submits the following detailed comments for consideration.

1. The proposed methodology relies on the application of universal costs when actual costs are readily calculable.

The proposed methodology for calculating pre-approved costs relies on the input of "universal costs" for (i) natural gas compressor fuel and commodity charges and (ii) operating consumables. Reliance on universal values for natural gas transportation fuel and commodity charges fails to recognize both the cost impact of the distance from receipt to delivery point and the cost to procure interruptible transportation. These are costs that will vary from generator to generator depending on the physical location of the asset on the grid. Similarly, reliance on a universal cost for operating consumables is agnostic to the turbine manufacturer, the unit's MW capacity and the plant's configuration, each being a factor that must be considered when calculating the cost of operating consumables.

Goreway understands that the application of universal costs reduces the administrative burden born by the IESO, but respectfully submits that where *actual costs* can be readily calculated, it is incumbent upon the IESO to rely on actual costs in its calculations of cost guarantees. Because individual generator costs for transportation fuel and commodity charges are readily calculable, these costs should not be assigned a universal value by the IESO and market participants should be permitted to submit evidence supporting their individual costs for due consideration in developing their pre-approved cost values.

2. The proposed methodology does not give proper consideration to maintenance cost causation set out in official OEM documentation.

² See IESO Response to Stakeholder Feedback, December 11, 2015, available at <https://ieso-public.sharepoint.com/Documents/consult/RTGCG/RTGCG-20151120-IESO-Response.pdf>



Goreway has provided OEM documentation that identifies the various mechanisms which limit the life of the turbine combustion parts. These OEM documents show that cyclic operations result in start cycle fatigue and require planned maintenance schedules different from those best suited to plants operating as a baseload facility. Accordingly, in order to correctly compensate generators for the cost of starting in real time, the RT-GCG cost calculation methodology must properly consider the OEM technical documentation when assessing the cause of wear and tear. This means that the calculation of pre-approved values for eligible costs should be based on the OEM's technical documentation, the terms of a generator's Contractual Services Agreement ("CSA") and the generator's actual operations.³ If this information demonstrates that a unit's planned maintenance cycle is driven by the number of starts incurred, then the resultant costs should be exclusively attributed to starts and eligible for RT-GCG. Cost recovery eligibility that ignores these factors is inconsistent with the principles of the program.

3. The proposed three-year review schedule is unjustified and should be amended to allow for a review of pre-approved costs after one year.

While Goreway has significant concerns about the design of the proposed changes to the RT-GCG program, an opportunity to review assumptions and calculations after one year would help to mitigate against the risk of flawed cost calculations. The IESO market, government policy and technology is evolving in a manner that demands a review schedule that can keep pace with these changes. A three-year review schedule is insufficient in the current market environment.

4. The proposed changes are sub-optimal solutions for the market efficiency and for reducing administrative complexity. Instead, the RT-GCG program should evolve to facilitate 3-part offers to the market and ex-ante competitive evaluation.

Goreway believes the best method of evolving the RT-GCG program is a series of market rule changes that would permit market participants to submit three-part offers to the IESO for competitive evaluation of all unit commitment costs on an ex-ante basis. Such an evolution is consistent with the IESO's current market renewal efforts and the ongoing requirement under the IESO's Market Rules to promote efficiency and competition in the IESO market.⁴

³ The IESO has used historic operation patterns to determine the allocation of wear and tear to either fatigue or creep and allocated the costs as a proportion of hours related to the start-up process. Goreway disagrees with this method from two perspectives; first is our stated opinion on fatigue related wear and tear being start related. Secondly, using historic operational patterns does not reflect the changes in resource mix and corresponding changes in operational patterns. There is no consideration given to the impact of forecasted incremental additions of variable resources or the continued emphasis on conservation programs.

⁴ Chapter 1, section 4.1 IESO Market Rules.



To conclude, Goreway continues to support the IESO's engagement efforts but has developed significant reservations that there is a lack of associated support for the IESO's own principles of engagement. Without necessary transparency, the effectiveness of the process has been undermined and resulted in sub-optimal rule design. With respectful consideration for the history of this engagement (and the acknowledged need for adequate consultation that factored into its design) Goreway believes it is all the more important that this process respect the commitments from all of those involved.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Byers", written over a white background.

Brian Byers
Project Manager