

Focused on the work in front of us: what stakeholders can expect

IESO Stakeholder Engagement Days Opening Remarks – September 28, 2020

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Check against delivery

Introduction

Hello everyone. It's great to be here. I have prepared some remarks that I want to provide. There is a lot going on, which means there is a lot to cover and I want to make sure I bring you up to date. Once I have done so, I'm happy to answer any of your questions.

Six months ago, I would have never thought that I would be making a presentation to stakeholders through an online format, nor would I have imagined that I would be here as the IESO's interim President and CEO.

But the pandemic and its continued presence has caused us all to change the way we are working. I for one, have been largely hunkered down in my home in South Etobicoke, meeting virtually with stakeholders and others, and carrying out my IESO responsibilities. And while I miss the personal interaction, I believe that like many others, I'm able to work effectively in these remote working conditions.

What has impressed me about our collective new working conditions is that stakeholders haven't missed a beat when it comes to engaging with the IESO on our operations and proposed initiatives.

I think there is still more we can do to enhance your participation and improve our decision making. You will hear more about this in the coming weeks.

We've seen a number of changes in our sector and at the IESO since the start of the pandemic, including the resignation of our President and CEO Peter Gregg. As you may know, Peter is transitioning to Atlantic Canada where he will become President and CEO of Nova Scotia Power. We thank him for what he has accomplished here and wish him well.

As the Board of Directors begins a process to recruit a new leader for the IESO, I have been appointed the interim President and CEO.

My goal over this period is to ensure that the IESO doesn't miss a beat in working with stakeholders on the many challenges and opportunities we collectively face.

Current situation

We're at a critical point right now on many fronts, we need continued diligence in addressing COVID-19 as we prepare to tackle a second wave. Ensuring the health and safety of our employees is a number one priority for all of us in this sector.

But as we look beyond the pandemic, the words reliability and affordability remain very much with us. Always challenging but perhaps more so amidst all of the change we are seeing with COVID-19.

The first six months of the pandemic threw a few curveballs at us, including demands for electricity that were at times the lowest we have seen since market opening in 2002, quickly followed by the highest demands we have experienced since 2013. We met both challenges, which to me demonstrates the strength and resiliency of Ontario's electricity system and its participants.

As an aside, as some of you know, I host the IESO's podcasts and recently I had a chance to interview both Kim Warren and Leonard Kula. Kim was the Chief Operating Officer between 2011 and 2017 and Leonard is our chief operating officer today. Both talked about the challenges during the peak periods like we had this summer. Have a listen. It's very entertaining. Both of these individuals have terrific experiences and expertise.

And yes that was a shameless promotion for the IESO's podcast.

This summer we also addressed reliability needs without the Industrial Conservation Initiative, given the 12-month hiatus by the government to allow industrial customers to focus on ramping up production. Again, while demands were higher we were able to meet those demands.

A common understanding

There have been a few twists and turns over the past few months. And I know that some of that has caught some stakeholders by surprise.

I'm the first to admit that we're not where we need to be when it comes to the subject of transparency

I recognize that the IESO needs to be clear about its goals and what we are trying to achieve.

I understand the need for transparency in this sector and I am committed to doing what we can to improve that. But sometimes when we are caught by surprise, it can be because we haven't connected the dots.

The upcoming capacity auction targets are a good example of that. Last month, we announced the targets for the December auction, 700 mw in the summer and zero megawatts in the winter.

Now that's a change from the targets that we have set in the first five Demand Response auctions where the winter and summer targets were more aligned.

And while the outlooks Chuck Farmer and his team provided earlier this year were clear in indicating that there were very limited or even no capacity needs over the next few winters, I also recognize that we could have done a better job working with participants including those that will participate in the December auction about connecting the dots, how that outlook would affect the targets that we would be setting this year in the capacity auction.

If we are to connect the dots, whether it's on capacity needs, energy or ancillary services needs or needs with respect to innovation efforts or even conservation, we will need to come to a common understanding of where we are today, what our future needs are and what options we have to address those needs.

If we can foster a greater understanding of our needs and the criteria we use to meet them, transparency around our decisions will follow

One of our Board members describes it as setting the table in a way that we all understand what's on the menu.

I think we are taking a big step in that menu preparation today.

Resource adequacy

Stakeholders have expressed a strong desire for the IESO to initiate the Resource Adequacy Engagement, to provide more clarity and transparency on how resources will be acquired to meet system needs. To give investors, developers, and resource owners the information they need to plan their investments.

Over the next few months, the IESO will seek feedback on a proposal to competitively acquire resources to meet short, medium, and long-term capacity needs, in a way that balances cost-effectiveness and risk. Risk to the ratepayer and risk to the asset owner

The IESO recognizes that procuring future capacity is not a one size fits all solution. We heard that loud and clear through some of our discussions following the cancellation of the incremental capacity auction in 2019.

In our proposal, capacity auctions are expected to meet short term needs while medium and long term needs will likely be met by a combination of capacity auctions and RFPs.

The IESO also recognizes that we need to accommodate government policy and in particular that not all resources can be procured competitively, nuclear, large hydro and energy efficiency are examples that come to mind.

We don't expect that increased competitive marketplace to happen overnight. In fact, it will likely be 2028 before we see a number of competitively acquired capacity resources in place in Ontario.

We know we have resources coming off contract in the meantime. Until the framework is fully implemented we will need to find ways to address the system operability and reliability risks we will face without these resources. This may mean re-contracting certain resources until there is sufficient uncontracted capacity to enable fair competition

Our engagement plans next year will focus on how we transition to that competitive framework over the next decade. I know transition is on many of your minds and I am expecting some robust

discussion on that. My ask is that we focus first on the high level framework, let's try to reach alignment on that first. There will be plenty of time to discuss how we get there.

Energy Project Proposals & DER Survey

There are a couple of initiatives related to resource adequacy that we are assisting the government with that I want to mention things that a number of you have mentioned to me in some of our calls that I want to raise today.

The government has developed an assessment approach for new energy project proposals that considers their system and non-system benefits. In light of our planning responsibilities and the developing resource adequacy framework they've asked us to help in reviewing and assessing the merits of these proposals to the electricity system. The IESO views this as a complementary process that provides a framework for government decisions for projects that provide value to Ontario but don't fit into the IESO's competitive processes.

We are also wrapping up a survey to help understand the capacity and capability of Distributed Energy Resources that customers have invested in over the last few years. Developing a better understanding of these resources is key to helping the IESO and government identify opportunities for greater customer participation. This initiative will help us understand what's out there, how customers are responding and can also inform the IESO's longer term resource adequacy strategy. Thanks to those who have participated and provided their information.

As I mentioned, I see both of these initiatives as being complimentary to our resource adequacy work that we're discussing today. Our goal is to bring these initiatives together as we plan to meet future system needs, maintain reliability and manage costs.

Enabling Resources

While our resource adequacy efforts are going to occupy a lot of our attention and no doubt yours, they are not the only things on our plates.

We know we have more work to do around enabling resources - demand response, storage and other distributed energy resources to name a few.

We understand the impact that the recently released capacity targets will have on demand response providers. Leonard Kula, Candice Trickey and I met with some of the DR providers 10 days ago and left that meeting understanding their concerns and their need for a clearer view of future needs.

The IESO is committed to continuing to use the capacity auction to meet system needs identified over the short term and to working with stakeholders on our process for setting capacity targets. Both of these commitments will be part of the discussion Leonard and team will have with you later this morning.

We also know there is some ground to cover around storage.

Working with the storage community, the IESO has produced an interim market design and draft market rules for storage participation in today's market. Our work to date maximizes the opportunity

for storage to compete – in energy, operating reserve, and ancillary services – within our existing tool sets.

The IESO recently published a long-term framework for storage that answers key questions about how storage will participate in the markets over the long-term as investments are made to integrate it in our renewed markets.

While this is real progress in enabling the integration of energy resources, I understand the pace we are moving at can be frustrating for many of you.

Doing this properly, and addressing all the moving parts, is more of a marathon than a sprint, but I can assure you as I did Justin Rangooni and others at the Energy Storage Conference, we are in it for the long run.

Another area of focus for us in the coming months will be Hybrids.

As FIT and microfit contracts come to an end over the next 10 years, many owners may want to look at adding storage to existing solar/wind resources to create hybrids that are more reliable/valuable from system management perspective.

The IESO not only needs to be ready for the development of hybrid storage by others; we need to understand and help ensure that any development of these assets can be leveraged to increase reliability and reduce electricity costs for Ontario consumers.

With respect to other work underway around Distributed Energy Resources, our second DER whitepaper will be discussed at an engagement session later in the Fall and registration is underway for participation in the non-wires alternative project in York Region.

We'll soon be announcing the results of a call for indoor agriculture projects through the Grid Innovation Fund that Katherine Sparkes and her team administers. These innovative projects will help meet growing demand for electricity from greenhouses in southwest Ontario

Going forward, you will see more targeted calls with respect to our Grid Innovation Fund, particularly as you look south of the border and see what is happening there. FERC order 2222, which was released about ten days ago, will no doubt stimulate a lot of activity around DERs and it will be important for us to learn from that.

Other initiatives

Before I close, let me bring you up to date on some other matters.

We continue to work with the provincial government on the development of a post 2020 conservation framework. This framework is expected to address system needs, at both the province wide and the local level, while also addressing customer needs to better manage their electricity costs.

We will soon be rolling out a Corporate Indigenous Policy. This policy is the IESO's public commitment to our relationships with Indigenous peoples and to capacity building in support of equitable participation in the electricity sector. As a member of the Mohawks of the Bay of Quinte, through my grandmother Helen Maracle, I am particularly proud of the work that the IESO has done with Indigenous communities.

With respect to Market Renewal, on Wednesday we'll reach an important milestone on MRP with the release of the 13th and final detailed design document (this one is on the pre-dispatch calculation engine)

In spite of the challenges posed to all of us by COVID-19, you've been an important partner in participating at our technical working sessions and submitting feedback throughout the pandemic. As always, we appreciate your continued support and advice.

In the next few months, we will be releasing a design tracker to identify what design changes have been made as a result of your input.

Closing

In closing, I know I have covered a lot this morning, but there's a lot going on right now. This is where my focus is, on the work we have underway and the work we all need to get started on.

We need your insights and input to inform our work but in providing that input and advice, we also need you to be aware of the broader stakeholder environment we're in and the context for decision making.

In return, we're committed to being clearer about our goals and the path forward, and to fostering a common understanding of the drivers behind our decisions, so you can understand why they're made, even if you don't necessarily agree.

We all play a critical role in planning an affordable and reliable electricity future for Ontario.

I have been in this business for some time, I know many of you and I know many of your concerns and the issues we face. I look forward to continuing to work with you to address them.

Thanks for your time today. Happy to answer any questions you have.