

Memorandum

To: Stakeholder Advisory Committee

From: Barbara Ellard, Director of Resource and System Adequacy

Date: March 9, 2022

Re: IESO Business Update – Resource Adequacy

The following provides an update to members of the Stakeholder Advisory Committee (SAC) on the Resource Acquisition activities, including Resource Adequacy.

The IESO remains committed to transitioning to the long-term use of competitive mechanisms to meet Ontario’s resource adequacy needs and understands that stakeholder input is critical to inform this transition.

To facilitate competition, and provide business planning certainty, the IESO established the Resource Adequacy Framework that considers three timeframes: short, mid and long-term requirements and options. The first [Annual Acquisition Report](#) was released last June, providing guidance on how the IESO will meet the forecasted system needs through a number of different acquisition mechanisms:

- The annual Capacity Auction has enabled Ontario to acquire a diverse and growing set of resources that help meet needs in the near term
- A Medium-Term RFP has been issued that allows existing resources to compete for contracts starting in 2024, with a contract length of five years
- The IESO has commenced its engagement for the first LT RFP and has issued the draft Request for Qualifications (RFQ)

Through ongoing consultation with stakeholders in the various engagement initiatives, the IESO will further evolve a competitive strategy to meet Ontario’s resource adequacy needs reliably and cost-effectively while recognizing the unique needs of different resources.

On January 28, 2022, the IESO received a [Ministerial directive](#) authorizing a series of initiatives that the IESO has been developing over the last year to address upcoming supply needs in a cost-effective and sustainable manner through the Resource Adequacy Framework.

This includes continuing with competitive procurements to meet medium- and long-term supply needs. It also directs the IESO to design a new program for small hydroelectric facilities, assessing a program for larger hydro facilities with expiring contracts, and securing contracts for the Oneida Energy Storage Project and the Calstock Generating Station. The Minister of Energy has also asked the IESO to continue its discussions with ITC and report back with an updated assessment its proposed Lake Erie Connector Project.

In an effort to secure supply to meet immediate needs in eastern Ontario, the IESO has now completed a transitional contract with Ontario Power Generation for the continued operation of the Lennox Generating Station. Given its location and operational characteristics, Lennox GS plays a critical role in maintaining the reliability of Ontario's power system and is the only resource available to meet immediate needs in the area.

The IESO continues to engage with the sector on a number of the Resource Adequacy initiatives identified below:

Medium Term RFP:

The final RFP was posted on January 31st and registrations were received on February 21. The IESO will review the registrations and prepare the UCAP calculations for each registered resource and determine whether the target capacity will need to be adjusted. Proposals are due by April 28.

Long-term RFP:

The IESO has been engaging with the sector on key design considerations for the LT RFP. Through the discussion with stakeholders at the engagement session on February 8, as well as in the materials posted for the March 10 session, the IESO proposed that (1) the term length be a minimum of 15 years with the ability for an additional up to 2 years if resources come into service by 2025; (2) the LT RFP will provide an element of protection for the energy revenues, in addition to a capacity payment, (3) draft mandatory and rated criteria that underpin the eligibility, and (4) connection and deliverability considerations.

The IESO also posted the draft RFQ for stakeholder review on February 28 and is inviting comments until March 31. Engagement with impacted Ministries and agencies is ongoing, while engagement with municipalities and Indigenous communities will take place in early April.

Capacity Auction

The enhancements for the 2022 Capacity Auction have transitioned from the design phase into implementation. While Demand Response stakeholders have raised some concerns with proposed changes, the IESO continues to engage with the community to ensure that there are no misconceptions around design changes, and that we understand their concerns and the potential impacts on the auction and/or the linkages to the MSP recommendations.

Small Hydro Program

The IESO has commenced discussions with the Ontario Waterpower Association and the impacted contract counterparties to engage on the proposed design for a program for re-contracting existing hydroelectric assets. In addition, the IESO is engaging advisors and consultants to support the program design and the additional requests in the Ministerial Directive, in particular around assessing any non-electricity system benefits and/or social value of larger hydroelectric units.

The updates above help frame the path forward on meeting the Resource Adequacy needs of the sector. The release of the 2022 Annual Acquisition Report will provide further information and detail around the mechanisms required to meet system needs.

More information is available on each respective engagement webpage as well as the monthly engagement summary found here: <https://ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/February-2022>