

Market Rule Amendment Proposal Form

Part 1 - Market Rule Information

Identification No.:	MR-00469-R00
Subject:	2022 Capacity Auction Enhancements
Title:	2022 Capacity Auction Enhancements
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input checked="" type="checkbox"/> Addition
Chapter:	7, 9 and 11
Appendix:	N/A
Sections:	Chapter 7: 18 and 19 Chapter 9: 4 Chapter 11: Definitions
Sub-sections proposed for amending:	Chapter 7: 18.1A, 18.4, 19.1, 19.8, 19.9, 19.9A, and 19.9B Chapter 9: 4.7J Chapter 11: Definitions
Current Market Rules Baseline:	46.1

Part 2 - Proposal History

Version	Reason for Issuing	Version Date
1.0	Draft issued for preliminary stakeholder review	Dec. 7, 2021
2.0	Draft issued for stakeholder review	February 10, 2022
3.0	Issued for technical panel review	April 12, 2022
4.0	Issued for technical panel review	May 10, 2022
5.0	Issued for technical panel review	July 5, 2022
6.0	Recommended by the Technical Panel to the IESO Board	July 12, 2022

Version	Reason for Issuing	Version Date
7.0	Approved by IESO Board	August 24, 2022

Approved Amendment Publication Date: August 24, 2022

Approved Amendment Effective Date: **September 19, 2022**

Part 3 - Explanation for Proposed Amendment

Provide a brief description that includes some or all of the following points:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

In preparation for the 2022 Capacity Auction, the IESO is proposing to amend the market rules to make a series of enhancements related to the Capacity Auction.

Background

Capacity auctions help meet Ontario’s reliability needs in a cost effective manner while allowing the IESO to adjust to changing system needs. With planned enhancements over time, the capacity auction is expected to attract a broader mix of resources, enabling the IESO to further increase competition and improve resource reliability and market performance.

Additional information on the Capacity Auction can be found on the IESO’s Capacity Auction [webpage](#).

Discussion

Chapter 7

18.1A – Update to the point in time rules to allow for an amendment to the *market rules* pertaining to the *capacity auction* where the proposed amendment expressly excludes the application of sections 18.1A.1 and 18.1A.2.

18.4 – Cross references in sub-section 18.4.4 have been updated.

18.5 - Updated to reflect the change in defined terms for the *system-backed capacity import resources* and *generator-backed capacity import resources*

19.1 – Updated eligible resource types to include *system-backed capacity import resource* and *generator-backed capacity import resource*.

19.8 – Updated the defined term *capacity import resource* to *system-backed capacity import resource*.

19.9 – Updated the defined term *capacity import resource* to *system-backed capacity import resource*.

19.9A – New section has been added for Eligibility Requirements for *Generator-Backed Capacity Import Resources*.

19.9B - New section has been added for Energy Market Participation for *Generator-Backed Capacity Import Resources*.

Chapter 9

Section 4.7J has been updated with *system-backed capacity import resource* and *generator-backed capacity import resource defined terms*.

A new sub-section, 4.7J.2.7, has been added for Capacity Import Call Failure Charges

A new sub-section, 4.7J.2.8, has been added for Capacity Deficiency Charges

Chapter 11

Updated and/or added the following defined terms:

capacity auction zonal constraints

capacity import call

forward period

generator-backed capacity auction eligible import resource

generator-backed capacity import resource

generator-backed import contributor

market price

offer

over committed capacity

system-backed capacity auction eligible import resource

system-backed capacity import resource

Part 4 - Proposed Amendment

Chapter 7

18.1A Capacity Auction – Transitional Market Rules

18.1A.1 For the purposes of participation in a *capacity auction*, *market rules* and *market manuals* that specifically concern *capacity auction* participation, the satisfaction of *capacity obligations*, or the performance of requirements directly related to that participation, shall remain in effect from the date of the *capacity auction* until the end of its associated *commitment period*, except as otherwise provided in sections 18.1A.1.1 and 18.1A.3.

18.1A.1.1 ~~Notwithstanding sections 18.1A.1, in the case where a *capacity auction* is a *demand response auction*, the *market rules* and applicable *market manuals* that shall remain in~~

~~effect until the end of the associated commitment period, in accordance with 18.1A.1, shall be the market rules and applicable market manuals in effect at the start of that demand response auction's associated commitment period. Nothing in this section 18.1A shall limit the effectiveness of a market rule amendment or market manual amendment that expressly excludes the application of sections 18.1A.1 and 18.1A.2.~~

- 18.1A.2 ~~Except as otherwise provided in sections 18.1A.1.1 and 18.1A.3,~~ Changes to the market rules and applicable market manuals that specifically concern capacity auction participation, the satisfaction of capacity obligations, or the performance of requirements directly related to that participation, and which are brought into effect between the date of a given capacity auction and the end of its associated commitment period, shall be applicable to subsequent capacity auctions and their associated commitment periods.
- 18.1A.3 ~~Notwithstanding sections 18.1A.1 and 18.1A.2,~~ Nothing in this section 18.1A shall limit the effectiveness of an urgent rule amendment.
- 18.1A.4 The IESO shall maintain a published archive of market rules and applicable market manuals in effect on the date of a capacity auction for a period of 2 years following the end of its associated commitment period.

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18.4 Capacity Auction Deposits

- 18.4.4 In the event a capacity auction participant has not satisfied the applicable eligibility requirements specified in sections 19.2, 19.3, ~~or 19.6,~~ 19.8, 19.9A, or 19.10 of Chapter 7 prior to the start of the applicable obligation period and has not elected to buy-out the capacity obligation in accordance with section 4.7J.3 of Chapter 9, the IESO shall revoke the capacity obligation and the capacity auction participant shall, at the IESO's sole discretion, forfeit its capacity auction deposit.

18.5 Capacity Auction Parameters

- 18.5.1 The IESO shall conduct capacity auctions at least on an annual basis to acquire capacity for a future one-year commitment period. In each capacity auction the IESO shall acquire auction capacity for each obligation period as specified in the applicable market manual.

Demand Curve, Zonal Constraints and Pre-Auction Reports

- 18.5.2 The IESO shall, in accordance with the applicable market manual, publish a pre-auction report in advance of each capacity auction, including the following capacity auction demand curve reference points:

- 18.5.2.1 a target capacity in accordance with section 18.1.2;

- 18.5.2.2 a capacity auction reference price;
- 18.5.2.3 a maximum and minimum *capacity auction clearing price*;
- 18.5.2.4 [Intentionally left blank – section deleted]
- 18.5.2.5 a maximum auction capacity limit at the maximum capacity auction clearing price that a capacity auction shall clear; and
- 18.5.2.6 a maximum *capacity auction* limit that a *capacity auction* shall clear.
- 18.5.3 The *IESO* shall define *capacity auction zonal constraints* for each *capacity auction* and the *IESO* shall *publish*, in the pre-auction report, those requirements as specified in the applicable *market manual*.
- 18.5.4 The *IESO* shall specify and *publish* in the pre-auction report the following timelines associated with a *capacity auction*:
 - 18.5.4.1 the deadline to submit the amount of *enrolled capacity* the *capacity auction participant* is willing to provide pursuant to section 18.2.1.2;
 - 18.5.4.2 the deadline for a *capacity auction participant* to submit a *capacity auction deposit* in accordance with section 18.2.1.3;
 - 18.5.4.3 the dates ~~in~~on which a *capacity auction participant* may submit capacity auction offers for a *capacity auction*;
 - 18.5.4.4 the period over which the *IESO* shall conduct the *capacity auction*; and
 - 18.5.4.5 the date of *capacity auction* post-auction reporting in accordance with sections 18.8.1 and 18.8.2.
- 18.5.5 The *IESO* shall define the total *capacity auction* that may be provided by all *system-backed capacity import resources* and *generator-backed capacity import resources* in a *capacity auction* for each *obligation period*. The *IESO* shall *publish*, in the pre-auction report, these requirements as specified in the applicable *market manual*.
- 18.5.6 The *IESO* shall define the total *capacity auction* that may be provided by all *system-backed capacity import resources* and *generator-backed capacity import resources* on each applicable *intertie* in a *capacity auction* for each *obligation period*. The *IESO* shall *publish*, in the pre-auction report, these requirements as specified in the applicable *market manual*.

19. Capacity Market Participants with Capacity Obligations

19.1 Purpose

19.1.1 This section details how a *capacity market participant* must satisfy a *capacity obligation* with a *capacity auction resource*.

19.1.2 *Capacity auction resources* eligible to satisfy a *capacity obligation* are:

19.1.2.1 an *hourly demand response resource*;

19.1.2.2 a *capacity dispatchable load resource*;

19.1.2.3 a *capacity generation resource*;

19.1.2.4 a *system-backed capacity import resource*; ~~or~~

19.1.2.5 a *capacity storage resource*; or

19.1.2.6 a *generator-backed capacity import resource*.

19.1.3 [Intentionally left blank – section deleted]

19.8 Eligibility Requirements for System-Backed Capacity Import Resources

19.8.1 A *capacity market participant* is eligible to satisfy its *capacity obligation* with a *system-backed capacity import resource* provided that the *capacity market participant*:

19.8.1.1 demonstrates to the satisfaction of the *IESO* that it can provide the *capacity obligation*, as specified in the applicable *market manual*;

19.8.1.2 is authorized as a *market participant* eligible to import *energy*;

19.8.1.3 is registered as a *boundary entity* pursuant to section 2.2.7; and

19.8.1.4 has provided *prudential support* and *capacity prudential support* in accordance with section 5 of Chapter 2.

19.9 Energy Market Participation for System-Backed Capacity Import Resources

19.9.1 A *capacity market participant* satisfying its *capacity obligation* with a system-backed capacity import resource shall receive an availability payment during the *obligation period*, in accordance with this section and the applicable *market manual*. Availability payments may be offset by non-performance charges in accordance with section 4.7J of Chapter 9.

Dispatch of System-Backed Capacity Import Resources

19.9.2 The *IESO* shall schedule a system-backed capacity import resource in the *energy market*, and issue *dispatch instructions* in accordance with Chapter 7.

19.9.3 A system-backed capacity import resource shall comply with *IESO dispatch instructions* in accordance with Chapter 7.

19.9.4 The *IESO* may disqualify from future participation in the *capacity auction* any *capacity market participant* that fails to schedule *energy* with the appropriate scheduling entity in order to satisfy its *capacity obligation* when called upon in accordance with this section 19.

Outage Notification Requirements for System-Backed Capacity Import Resources

19.9.5 A system-backed capacity import resource shall reduce or remove its *offer* to reflect the maximum capacity that it reasonably expects it can provide in accordance with section 3.5.6.

Activation Testing for System-Backed Capacity Import Resources

19.9.6 The *IESO* may, in accordance with the applicable *market manual*, direct a *capacity market participant* to perform activation testing for each system-backed capacity import resource up to a maximum of two activation tests per *obligation period* to verify that the energy offer can be satisfied for a duration specified in the applicable *market manual* by the system-back capacity import resource. capacity market participant.

19.9.7 If a *capacity market participant* fails an activation test performed pursuant to section 19.9.6, the *capacity market participant* shall be subject to non-performance charges in accordance with the applicable *market manual*. Failure during activation testing shall

be considered a breach of the *market rules* and may result in sanctions in accordance with section 6.2 of Chapter 3.

- 19.9.8 The *IESO* shall provide a *system-backed capacity import resource* notification at least two hours in advance of the dispatch hour of the test activation and the test activation shall occur within the *availability window* of an *obligation period*.
- 19.9.9 The test activation shall occur in accordance with the *dispatch instructions* specified in this section 19.9.

19.9A Eligibility Requirements for Generator-Backed Capacity Import Resources

19.9A.1 A capacity market participant is eligible to satisfy its capacity obligation with a generator-backed capacity import resource provided that the capacity market participant:

19.9A.1.1 demonstrates to the satisfaction of the *IESO* that it can provide the capacity obligation, as specified in the applicable market manual;

19.9A.1.2 is authorized as a market participant eligible to import energy in association with a boundary entity; and

19.9A.1.3 has provided prudential support and capacity prudential support in accordance with section 5 of Chapter 2.

19.9B Energy Market Participation for Generator-Backed Capacity Import Resources

19.9B.1 A capacity market participant satisfying its capacity obligation with a generator-backed capacity import resource shall receive an availability payment during the obligation period, in accordance with this section and the applicable market manual. Availability payments may be offset by non-performance charges in accordance with section 4.7J of Chapter 9.

Dispatch of Generator-Backed Capacity Import Resources

19.9B.2 The *IESO* shall schedule a generator-backed capacity import resource in the energy market, and issue dispatch instructions in accordance with Chapter 7.

19.9B.3 A generator-backed capacity import resource shall comply with *IESO* dispatch instructions in accordance with Chapter 7.

19.9B.4 The IESO may disqualify from future participation in the capacity auction any capacity market participant that fails to schedule energy with the appropriate scheduling entity in order to satisfy its capacity obligation when called upon in accordance with this section 19.

Outage Notification Requirements for Generator-Backed Capacity Import Resources

19.9B.5 A generator-backed capacity import resource shall reduce or remove its offer to reflect the maximum capacity that it reasonably expects it can provide in accordance with section 3.5.6.

19.9B.6 A generator-backed capacity import resource shall comply with the outage notification requirements specified in the applicable market manual.

Capacity Auction Testing for Generator-Backed Capacity Import Resources

19.9B.7 A capacity market participant satisfying its capacity obligation with a generator-backed capacity import resource must perform an activation test, in accordance with the applicable market manual, by scheduling an energy import into the IESO-administered market for at least one (1) hour that coincides with the timing of its scheduled four hour activation in the neighbouring control area, on a date that falls within the first two months of the applicable obligation period and by submitting data to the IESO to confirm the capability of the generator-backed capacity import resource to inject at least its capacity obligation into the control area in which it is located for four consecutive hours within the availability window.

19.9B.8 A capacity market participant that fails to submit data pursuant to section 19.9B.7, in the form specified by the IESO, in a timely manner shall be subject to a capacity obligation administration charge pursuant to section 4.7J.2.3 of Chapter 9 .

19.9B.9 If a capacity market participant fails an activation test performed pursuant to section 19.9B.7, the capacity market participant shall be subject to non-performance charges in accordance with the applicable market manual. Failure during an activation test shall be considered a breach of the market rules and may result in sanctions in accordance with section 6.2 of Chapter 3.

19.9B.10 The activation test shall occur in accordance with the dispatch instructions specified in this section 19.9B.

Chapter 9

4.7J Capacity Obligations

- 4.7J.1 The *IESO* shall remit an availability payment associated with a *capacity obligation*, if any, to the applicable *capacity market participant*, in the manner specified in the applicable *market manual*.
- 4.7J.2 A *capacity market participant* with a *capacity obligation* shall, in accordance with the applicable *market manual*, be subject to the following non-performance charges if the *capacity market participant* does not satisfy the requirements of its *capacity obligation*:

Capacity Obligation Availability Charges

- 4.7J.2.1 A *capacity market participant* participating with an *hourly demand response resource* or a *capacity dispatchable load resource* shall be subject to an availability charge for every hour of the *availability window* it fails to submit *demand response energy bids* in the amount of their *capacity obligation* in either the day-ahead commitment process or in the *real-time energy market*.
- 4.7J.2.1A A *capacity market participant* participating with a *capacity generation resource*, *system-backed capacity import resource*, *generator-backed capacity import resource*, or *capacity storage resource* shall be subject to an availability charge for every hour of the *availability window* in which it fails to submit *energy offers* in the amount of their *capacity obligation* in the day-ahead commitment process or in the pre-dispatch hour.

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Capacity Obligation Administration Charges

- 4.7J.2.3 A *capacity market participant* participating with an *hourly demand response resource* or a *generator-backed capacity import resource* shall be subject to a ~~*demand response*~~ *capacity obligation* administration charge for failure to provide timely, accurate and complete *data, including* measurement data, to the *IESO*.

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- 4.7J.2.6 Subject to section 7.5.8A of Chapter 7, a *capacity market participant* participating with a *system-backed capacity import resource* or *generator-backed capacity import resource* that fails to satisfy its *capacity obligation* in response to an activation test shall be subject to a capacity charge.

Capacity Obligation Capacity Import Call Failure Charges

4.7J.2.7 Subject to section 7.5.8A of Chapter 7, a *capacity market participant participating with a generator-backed capacity import resource that fails to satisfy its capacity obligation in response to a capacity import call shall be subject to a capacity import call failure charge as specified in the applicable market manual.*

Capacity Obligation Capacity Deficiency Charges

4.7J.2.8 Where the *IESO* has determined that all or a portion of a *capacity market participant's capacity obligation is over committed capacity it shall be subject to a capacity deficiency charge and the IESO shall revoke the portion of the capacity obligation that is over committed capacity.*

Chapter 11

capacity auction zonal constraints means the minimum or maximum amount of *auction capacity*, or virtual *demand response capacity* that a *capacity auction* seeks to secure for a specific electrical zone or group of electrical zones as detailed by the *IESO* in each pre-auction report;

capacity import call means an *energy import* from an *external control area* that is supported by the capacity of a *generation facility* or the capacity for injection of an *electricity storage facility* within the *external control area* that has committed its capacity, or a portion thereof, to the *IESO control area* and that capacity has been called by the *IESO* in accordance with section 19.9 or 19.9B of Chapter 7;

forward period means the period of time ~~immediately~~ beginning three (3) business days following a *capacity auction*, to the commencement of an *obligation period*;

generator-backed capacity auction eligible import resource means one or more *generator-backed import contributors* and no portion of the capacity that is associated with that *generator-backed import contributor* into the *IESO capacity auction* may be over committed capacity;

generator-backed capacity import resource means a *generator-backed capacity auction eligible import resource* with a *capacity obligation* received in a given *capacity auction* in accordance with the applicable *market manual*;

generator-backed import contributor means an existing in-service *generation facility* or *storage facility* which is located in a neighbouring *control area* that has an agreement with the *IESO* to allow for the trade of capacity, is able to enroll in accordance with the applicable *market manual*, has been in operation for at least one year prior to the *capacity auction*, is a resource type that is currently enabled to participate in the *IESO's capacity auction*, and is able to transmit energy from the *generation facility* or *storage facility* to the Ontario border;

market price means the price of *energy* or *operating reserve* determined in the *real-time market* or the price of *auction capacity* determined in the *capacity auction* in accordance with the provisions of Chapter 7;

offer means a statement of the quantities of a commodity that a seller will provide at different *market prices* for that commodity in the *real-time market*, ~~or~~ the *procurement market*, or the *capacity auction*;

over committed capacity means capacity that has been contracted to or otherwise obligated to be provided to the *IESO*, the OEFC, or another *control area operator* at any time during a given *obligation period* where the same capacity is included in a *capacity obligation* held by a *capacity market participant* participating with a *generator-backed capacity import resource*;

system-backed capacity auction eligible import resource means a *capacity auction resource* associated with a *boundary entity* that is available to enroll capacity that a neighbouring *control*

area operator is willing to allocate to Ontario, if a *capacity obligation* is secured, for the duration of the applicable *obligation period*, which capacity would be deemed to be supplied from the entire system of the neighbouring *control area*. The allocated capacity must not otherwise be – in whole or in part – contracted to or otherwise obligated to be provided to the *IESO*, the *OEFC*, or another *control area operator* during the entire duration of a given *obligation period*;

system-backed capacity import resource means a *system-backed capacity auction eligible import resource* with a *capacity obligation* received in a given *capacity auction* in accordance with the applicable *market manual*;