

Incremental Capacity Auction (ICA) – Stakeholder Feedback Form

Stakeholder Options Phase Meeting #1: August 16th, 2017

Feedback request by: 2017/09/13	<u>Feedback provided by:</u>
Date Submitted: <i>YYYY/MM/DD</i>	Company Name: Ontario Waterpower Association
	Contact Name: Paul Norris
	Phone:
	Email:

By submitting this Stakeholder Feedback Form, the company or individual identified above, as applicable, consents to the disclosure by the IESO of this Stakeholder Feedback Form and its contents, in whole or in part, in stakeholder engagement meetings, on the IESO website or otherwise.

The IESO held the first meeting of the ‘Options Phase’ of the Incremental Capacity Auction engagement on August 16th, 2017. The meeting covered the design elements related to establishing the demand curve (i.e. Target Capacity, Net CONE, Min/Max Capacity Limits, Maximum Auction Clearing Price, and Slope of Demand Curve).

The presentation can be [found here](#).

In order to maximize the effectiveness of this stakeholder engagement process, the IESO requests that stakeholders use the template below to provide feedback on content presented as follows:

- Provide responses to the questions posed
- For options presented, indicate your preference along with applicable rationale/supporting arguments
- Identify any aspects that you believe require further elaboration or discussion

Feedback received may be shared by the IESO on its website, at future stakeholder engagement meetings, or otherwise and will help inform further discussions at future stakeholder engagement meetings.

Please send this form with your feedback to engagement@ieso.ca

ICA Goals & Objectives	Stakeholder Feedback
<p>Draft Goal: <i>Slides 6-14</i></p> <p>Do stakeholders agree with the following proposed Goal statement for the ICA Project?</p> <p><i>The Incremental Capacity Auction Project will develop and implement an enduring market-based capacity procurement mechanism that will, alongside contracted and rate regulated resources, ensure Ontario’s resource adequacy needs are met cost effectively within the broader policy framework.</i></p>	<ul style="list-style-type: none"> - Stakeholder input (both SE and MRWG) specifically identified a need to explicitly state that “large hydro” would not be able to participate in the ICA due to its design. The same could be said for almost any Greenfield hydro. The caveat “<i>alongside contracted and rate regulated resources</i>” does not adequately capture this. - It is recommended that the goal be amended to “<i>alongside contracted and rate regulated resources and other procurement mechanisms</i>” - The phrase “<i>within the broader policy framework</i>” is too vague. It should be amended to read “to align with the LTEP and government policy objectives”

<p>Draft Objectives: <i>Slides 6-14</i></p> <p>Do stakeholders agree with the following proposed Objectives for the ICA Project?</p> <ol style="list-style-type: none">1. Meet incremental resource adequacy needs2. Secure incremental capacity at the lowest cost in the long run	<p>The objective “to meet incremental resource adequacy needs” is too vague.</p> <ul style="list-style-type: none">– it should be clarified that the ICA is only one mechanism used to procure capacity (other mechanisms include contracts and regulated rates). It could be restated as “Contribute to incremental resource adequacy needs...” or– alternatively “incremental” should be defined. <p>It is also important that the first objective references that the ICA will be designed to be a competitive market based mechanism as opposed to another type of procurement.</p> <ul style="list-style-type: none">– A suggestion would be the following: “Contribute to incremental resource adequacy needs through a competitive market based mechanism”. <p>If the goal statement is not revised to be more specific regarding government policy, a third objective should be added to reflect this alignment:</p> <ul style="list-style-type: none">– a suggestion would be - “Align with the LTEP and government policy objectives”.- There needs to be additional definition in the phrase “lowest cost in the long run”. Is this intended to address lifecycle cost differences between energy sources? – Waterpower assets last 100+ years while most other technologies have a much shorter lifespan.- The mechanism for determining <u>lowest cost in the long run</u> needs to be transparent and stakeholdered.
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<p>Draft Strategic Outcomes: <i>Slides 6-14</i></p> <p>Do stakeholders agree that the objectives can be achieved if, within the broader policy framework?</p> <ul style="list-style-type: none"> • A transparent market price is established for the value of capacity in each zone • Incremental capacity is secured in the locations and timeframes that align with resource adequacy needs • Diverse resource types are enabled to compete to meet resource adequacy needs • Auction design evolves over time to address sector changes and improve auction outcomes • Risk is appropriately allocated 	<ul style="list-style-type: none"> - There should be a strategic outcome that recognizes that ICA will be only one mechanism that secures incremental capacity. Suggest: “The ICA complements other procurement mechanisms (e.g. contracts) to ensure resource adequacy” - The term “Diverse resource types” should be expanded to “All available resource types” - Add an outcome “Is aligned with other streams of market renewal” - Add an outcome that enables adaptation over time based on lessons learned (i.e. the process is flexible) - All processes, assumptions and models are open, clear and transparent to all stakeholders and there is opportunity for stakeholder feedback and input into each auction. - Risk needs to be defined; if talking about cost allocation (Capacity vs. energy) then setting demand curve is going to be very important. - Resource participation depends on design; this design must be directly linked to LTEP and policy objectives.
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Design Element	Features	Questions for Stakeholders	Stakeholder Feedback
Target Capacity	Hold-Back <i>Slides 27-32</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. With “Hold-back” 2. Without “Hold-back” QUESTION: What other considerations could inform this decision?	<ul style="list-style-type: none"> - There should not be a specific objective of “trying to support short lead time resources” as this necessarily precludes participation from some sources - This decision should be flexible to change with each auction, and related to the type of resource needed at the time - The forward period and term of the auction would factor into the decision along with the type of resources required – peaking, baseload, flexible. - Could have multiple rebalancing auctions. Most important focus is to put design effort into rebalancing auction (frequency, number of them, etc.)
	Transparency and certainty	QUESTION: What information would stakeholders/participants require in order to	<ul style="list-style-type: none"> - The intended use of the information paramount, transparency is

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	<p><i>Slides33-36</i></p>	<p>understand how the reserve requirement, and subsequently the Target Capacity, is determined by the IESO?</p> <ul style="list-style-type: none"> To ensure IESO communicate relevant information, it would help to understand the intended use of the requested information 	<ul style="list-style-type: none"> - IESO should provide the modeling assumptions as well as access to the models - The establishment of target capacity should be undertaken through a stakeholder process with technical representatives from demand/supply/transmission - The IESO should consider using third party expertise and having the result subjected to independent review and approval (e.g. OEB) - The Outlook period used needs to match commitment period (e.g. 7 years) - There needs to be clarity on what forecast is used for contracted and rate regulated (i.e. base) - Demand Side – Stakeholders need to understand the methodology IESO uses to forecast demand and the inputs the IESO uses to forecast demand. - Supply Side – Stakeholders need to understand the capacity contribution from rate regulated assets (even though they are not participating in the ICA, they are part of resource adequacy) by unit.
	<p>Timelines <i>Slides37-39</i></p>	<p>QUESTION: What activities do participants envision typically occurring after the Target Capacity has been published (e.g., arranging financing, vendors, project development work, site selection, permitting, etc.)?</p> <ul style="list-style-type: none"> How long, on average, would these activities take? <p>QUESTION: How far beyond the commitment period would stakeholders desire that “Target Capacity” <u>projections</u> be published?</p>	<ul style="list-style-type: none"> - It is expected that, for hydro, only a subset of incremental capacity at existing facilities will be able to participate in the ICA, as designed. Even these developments may require permits and approvals from MOECC, MNRF and/or DFO and, in some instances, consultation with Indigenous communities. At present, these processes take two (2) to four (4) years to complete. - The forecast for Target Capacity should be for the period covering the forward period, the term and at least another five years beyond the commitment period. This would help suppliers in determining

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			<p>when they want or need to enter into the capacity auction.</p> <ul style="list-style-type: none"> - In the capacity export initiative the IESO is implicitly using the 18 month outlook for the projection period. This period may not align with the capacity auction and its forecast duration is inadequate for planning projects and submissions into an ICA. - There should be both an initial target capacity established (e.g. one year in advance of the auction) and a review and adjustment, as necessary closer to the actual auction (e.g. 3 months prior)
	Reference Technology <i>Slides46-49</i>	QUESTION: What considerations should drive the selection of the reference technology in Ontario?	<ul style="list-style-type: none"> - The main consideration that should drive the reference technology for Ontario is government policy in particular the LTEP, and within this framework the next type of resource that will most likely be built within Ontario. - A key driver should be the province’s commitment to its Climate Change Action Plan and, in particular, CO2 reductions in the context of the broader electrification of the economy. Is it realistic in this context to align with other jurisdictions and chose fossil-based technologies?
	Gross CONE <i>Slides50-52</i>	QUESTION: Are there Ontario-specific considerations that should be reflected when establishing the methodology for estimating Gross CONE?	<ul style="list-style-type: none"> - The cost of regulatory approvals in Ontario should be specifically identified as a key input. In small hydro, for example, environmental assessment and permitting can be up to twenty percent (20%) of project development costs - The province, through procurement and other policy mechanisms has also created an expectation in many instances of Indigenous/Community equity participation at a project level. These costs need to

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			be factored in as well. - Much will be informed/influenced by the supply mix Ontario policy (i.e. LTEP) - Differences between Ontario and PJM or ISO-NE include exchange rate, permitting, community and stakeholder consultation (higher cost in Ontario)
	Energy & Ancillary Services Offset <i>Slides53-55</i>	QUESTION: What considerations do stakeholders feel is important to consider when defining the methodology for forecasting the E&AS Offset?	- Forecast must be consistent across all participants - The IESO should consider using third party expertise and having the result subjected to independent review and approval (e.g. OEB)
	Stakeholder Involvement <i>Slides56-59</i>	QUESTION: What expectations do participants have for their level of involvement in setting the inputs that will feed into the Net CONE study? QUESTION: To what extent should the outputs from the Net CONE study be open to debate or revisiting?	- The establishment of NET CONE should be undertaken through a stakeholder process with technical representatives from demand/supply/transmission - IESO should provide the modeling assumptions as well as access to the models. - The IESO should consider using third party expertise and having the result subjected to independent review and approval (e.g. OEB)
	Frequency of Revision <i>Slides60-64</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Reset performed > 4 year cycle 2. Reset performed every 3-4 years 3. Reset performed < 3 year cycle QUESTION: What other considerations could inform the decision of how frequently the Net CONE components need to be updated?	- Rather than arbitrarily choosing a review period, criteria should be established which trigger a review (e.g. significant change in demand, significant change in costs, new technology entry)

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	Zonal Net CONE <i>Slides65-69</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Single Net CONE for Ontario 2. Use zonal Net CONE estimates QUESTION: What other considerations could inform the decision of whether to estimate zonal Net CONE values?	<ul style="list-style-type: none"> - In general, it is more costly to build in northern Ontario than it is in the south - In general, it is more costly per MW to build small hydro than large hydro (e.g. regulatory process are a fixed cost) - It should be recognized that waterpower opportunities “are where they are” and that each development is unique, unlike other more modular and moveable technologies. - If government policy is sensitive to procuring specific supply mix and obtaining certain resources, that would influence what resources would be procured in certain zones, which will influence transmission decisions.

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Min/Max Capacity Limit	Methodology for determining limits <i>Slides78-82</i>	Please identify preferred option and provide supporting rationale. OPTIONS: 1. Set as a percentage of Target requirement 2. Based on specified LOLE 3. Based on low/high demand outlooks QUESTION: Are there any other considerations that should be taken into account when establishing the mechanism for setting minimum/maximum limits for the base auction?	<ul style="list-style-type: none"> - The IESO should consider using third party expertise and having the result subjected to independent review and approval (e.g. OEB) - This should be undertaken through a stakeholder process with technical representatives from demand/supply/transmission
Maximum Auction Clearing Price (MACP)	Methodology for calculating MACP <i>Slides90-94</i>	Please identify preferred option and provide supporting rationale. OPTIONS: 1. Function of Net CONE 2. Function of Gross CONE QUESTION: What other considerations could inform the decision of how to establish the MACP? – Gross CONE vs. Net CONE – Magnitude of multiplier	<ul style="list-style-type: none"> - The IESO should consider using third party expertise and having the result subjected to independent review and approval (e.g. OEB) - This should be undertaken through a stakeholder process with technical representatives from demand/supply/transmission
	Price Floor for MACP <i>Slides95-99</i>	Please identify preferred option and provide supporting rationale. OPTIONS: 1. With Price Floor 2. Without Price Floor QUESTION: What other considerations could inform the decision of whether a price floor for MACP is required?	<ul style="list-style-type: none"> - The IESO should consider using third party expertise and having the result subjected to independent review and approval (e.g. OEB) - This should be undertaken through a stakeholder process with technical representatives from demand/supply/transmission

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Slope of Demand Curve	Shape of demand curve <i>Slides107-114</i>	Please identify preferred option and provide supporting rationale. OPTIONS: 1. Steeper Slope 2. Flatter Slope 3. Convex 4. Concave QUESTION: What aspects of each demand curve shape do stakeholder believe Ontario should adopt? Why?	<ul style="list-style-type: none"> - The IESO should consider using third party expertise and having the result subjected to independent review and approval (e.g. OEB) - This should be undertaken through a stakeholder process with technical representatives from demand/supply/transmission

General Comments/Feedback: