

Market Renewal Incremental Capacity Auction

Meeting 7: Response to Stakeholder Feedback

Following the December 4th Incremental Capacity Auction (ICA) stakeholder meeting, the IESO invited stakeholders to provide comments and feedback on a series of design options related to commitment periods and lengths of forward periods in the ICA. For each of the options, the IESO asked stakeholders to:

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

The IESO received feedback from:

Association of Power Producers of Ontario (APPrO)

EnerNOC

Hydro Quebec Energy Marketing (HQEM)

Nalcor Energy Marketing

Ontario Waterpower Association

Please note that all feedback received has been reviewed and logged with preferences and comments noted; this will be considered as the engagement moves toward making preliminary decisions. The summary table below only includes specific feedback, questions or issues for which an IESO response or clarification is required at this time.

This feedback has been posted on the IESO stakeholder webpage for this engagement.

Note on Feedback Summary

Feedback from stakeholders highlighted a number of important issues and considerations. The key themes highlighted include:

- Support for aligning auction dates and commitment periods with those in neighbouring jurisdictions.
- Support for seasonal obligation periods.
- Support for multi-year commitments.
- Interest in outcomes experienced in other jurisdictions.

Stakeholders also provided a number of individual comments and recommendations on the ICA design elements and options presented.

The IESO appreciates the feedback received from stakeholders. This stakeholder feedback, along with the comments provided at the stakeholder engagement sessions, is important to the collaborative approach the IESO has committed to under the Market Renewal Program and will help inform the design of the ICA. All feedback received has been noted and will be considered. Below, the IESO has provided a summary table which outlines responses in respect of specific feedback or questions for which an IESO response was required at this time.

Stakeholder comments and IESO responses

Design Element	Company	Feedback	IESO Response
Length of Forward Period	Ontario Waterpower Association	It would be helpful for the IESO to provide details of the supply mix and that procured through the ICA for each of the jurisdictions listed on page 58.	A breakdown of new resources procured via an auction based mechanism in some of the other jurisdictions, with a forward period comparable to that being proposed by the IESO (i.e. approximately three years), can be found at the following links:

Design Element	Company	Feedback	IESO Response
			<ul style="list-style-type: none"> • PJM (see page 21): https://www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2020-2021-base-residual-auction-report.ashx • ISO-NE: https://www.iso-ne.com/about/key-stats/markets
Multi-Year Commitments	Ontario Waterpower Association	It would be helpful for the IESO to provide an indication of the types of resources secured in the jurisdictions reviewed	<p>See response above for a breakdown of resources procured through past auctions in other jurisdictions.</p> <p>The IESO recognizes that the Length of the Forward Period and Multi-year Commitments are important factors to enable certain types of new resources to participate in capacity auctions. However, there are many other factors that drive the development of new resources (e.g., policy considerations, performance requirements, other revenue opportunities, auction stability, siting, permitting, etc.).</p> <p>All of these factors should be considered holistically when reviewing the types of resources that have been secured in other jurisdictions through a capacity auction mechanism.</p>

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Multi-year Commitment	APPrO	<p>On slides 97 and 98 the IESO presents their assumptions surrounding resources required to meet future supply needs including Incremental capacity need that may come from new resources, uprates, imports, DR, etc. On slide 96 the IESO states that: "In the Ontario context, the expectation is that new build resources will not be required in the first few years due to sufficient incremental capacity that will be available from low capital cost resources (e.g., imports, DR, uprates, facilities with expiring contracts, etc.)" Can the IESO please substantiate this statement and provide the data and analysis on the demand and the resources expected during this period? Is this data consistent with the IESO December 30, 2016 report Ontario Reserve Margin Requirements: 2017 - 2021?</p>	<p>The figures on slides 97 and 98 are developed with data from the 2016 Ontario Planning Outlook report and the 2017 Long Term Energy Plan, which use a methodology consistent with the 2016 Ontario Reserve Margin Requirements (RMR) report. However, due to the fact that these reports have been released at different points during the year, some of the underlying data is more up-to-date in Slides 97-98 compared to the 2016 Ontario RMR report.</p> <p>The graph on slide 97 shows the potential demand scenarios, based on the 2017 LTEP as well as the amount of capacity that is expected to be available from resources with expiring contracts.</p> <p>Considering the reference demand scenario (i.e. the blue curve on slide 97), the reasons that the IESO does not currently expect new build resources to be required for the first few years of the auction include:</p> <ul style="list-style-type: none"> • Resources with expired contracts are expected to be competitive when participating in the auction, which could satisfy a significant portion of the anticipated resource requirement (see slide 98) • Experience in other jurisdictions shows that a

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			<p>significant amount of additional capacity was available from low capital DR, uprates, and imports before significant new build resources were required</p> <ul style="list-style-type: none"> Increasing amounts of demand response have cleared the DR auction year-over-year in Ontario
Multi-year Commitment	APPrO	Does the demand on slides 97 and 98 reflect the Required Capacity at Peak (MW) in the Ontario Reserve Margin Requirements: 2017 – 2021 report?	<p>The demand curves (required capacity) presented on Slide 97-98 cannot be directly compared to the requirements presented in the Ontario Reserve Margin Requirements: 2017-2021 report.</p> <p>The demand scenarios presented on slides 97-98 reflect the <u>total</u> capacity requirement at peak including both directly connected resources and embedded resources. The resource requirement presented in the 2016 Ontario RMR report is the grid requirement (i.e. the demand that needs to be satisfied by directly connected resources only).</p> <p>Also, the demand scenarios presented in Slides 97-98 include an additional reserve to cover risks associated with the nuclear refurbishment schedule, which is not reflected in the 2016 Ontario RMR report.</p>

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Multi-year Commitment	APPrO	Has the capacity of the resources assumed to be available been effectively de-rated to reflect both seasonal and forced outage impacts (are they UCAP?) consistent with the methodology utilized in other market-based jurisdictions?	<p>The capacity assumed to be available when evaluating the amount that is needed to satisfy resource adequacy criteria reflects both seasonal and forced outage impacts based on current IESO processes.</p> <p>The process that will apply when qualifying capacity as part of the ICA is still to be determined. As part of this, the IESO will determine the degree to which the methodology used will align with other jurisdictions.</p>
General	APPrO	<p>Brattle also identified that "the proposed Market Renewal effort would align the design of the Ontario wholesale power markets more closely with that of market-based neighboring regions, which could increase the number of market participants in Ontario, the efficiency and competitiveness of trading across interties with these markets, and the overall liquidity and transparency of the Ontario market."</p> <p>Transparency is a vital component for the success of the ICA particularly where it is expected to entice entry from new generation. As a starting point a comprehensive independent Integrated Resource Plan (IRP) similar to what has been developed in neighbouring US jurisdictions will be required.</p>	<p>The IESO agrees that transparency is a vital component for the success of the ICA and will continue to work with stakeholders to establish what type of information/documentation will be required to drive efficient auction outcomes.</p>

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General	APPrO	<p>Once a high-level design is developed by the IESO for the ICA, the IESO should consider reviewing the original cost benefit analysis as presented in the Brattle Group Benefits Case including updating the forecasts and assumptions to ensure the economic rationale for this undertaking is solid. Market Renewal is the first significant overhaul of the Ontario electricity market since its opening in 2002 and involves a number of major changes. It will have a significant long-term effect on electricity market participants and consumers. The forecast economic benefits are large but with a significant band of uncertainty. Further, fully 75% of the benefits are associated with the ICA. The recently released 2017 Long Term Energy Plan (LTEP) shows a substantially greater need for capacity than the previous IESO Ontario Power Outlook (OPO). Additionally, the recent announcement that the IESO will undertake a Non-Emitting Resource Request for Information (RFI) to provide further information on new projects and upgrades to existing resources with a focus on the potential technical and commercial aspects and how they will participate in the market to help meet present and future system needs, may also have an impact on the savings forecast from the development of the ICA.</p>	<p>The IESO is open to working with stakeholders to identify whether there is a need to update the forecasts and assumptions used for the development of the Benefits Case. It is worth noting that the Benefits Case was prepared with the expectation that the forecasts and assumptions used in developing the document were going to change over time. The uncertainty related to those inputs is reflected in the fairly substantial range of benefits outlined in the report. For example, the range of benefits from an Incremental Capacity Auction was developed using a diverse set of scenarios from the Ontario Planning Outlook. This range of benefits reflects a broad set of potential incremental capacity needs (driven by trends like the level of electrification of Ontario’s heating and transportation sectors). At this point, the IESO believes that it is premature to make a decision on whether the outcome of the Non-Emitting Resource Request for Information, which is an information sharing exercise, could have a bearing on the Benefits Case analysis of ICA benefits.</p>

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