

Incremental Capacity Auction – Phase 2 - Options

January 24, 2018

Minutes of Meeting

Date held: January 24, 2018	Time held: 9:00am - 4:00 pm	Location held: Crowne Plaza Toronto Airport
Company	Name	Attendance Status (A) Attended; (WebEx) Attended via WebEx; (TC) Attended via teleconference
APPrO	Butters, Dave	A
Bruce Power	Dalzell, Pat	A
EnerNOC	Griffith, Sarah	A
Goreway	Sutherland, Chris	A
Great Circle	Wharton, Karen	A
Hydro Quebec Energy Marketing	Belanger, Frederic	Webex
Ministry of Energy	Qureshi, Musab	A
Ministry of Energy	Peltier, Matthew	A
NPI	Khan, Shahid	A
NPI	Samant, Sushil	A
OPG	Wizniak, Lynn	A
Power Advisory LLC	Cumming, Alison	A
Power Advisory LLC	Simmons, Sarah	A
Rayonier Advanced Material	Laflamme, Serge	A
Resolute	Degelman, Cara	WebEx
Rodan Energy	Quassem, Farhad	A
Sussex Strategy Group	Hiltz, Bonnie	A
The Brattle Group	Spees, Kathleen	A
The Brattle Group	Van Horn, Kai	A
The Brattle Group	Yang, Yingxia	WebEx
TransCanada	Kuntz, Margaret	A
TransCanada	Mikkelsen, John	WebEx
IESO	Doyle, Robert	A
IESO	Bedford, Julie	A
IESO	Hill, Warren	A
IESO	Nusbaum, Stephen	A
IESO	El-Samahy, Ismael	A
IESO	Chagla, Farid	A
IESO	Agavrioloai, Ioan	A
IESO	Movchovitch, Emanuel	A
IESO	Clemente, Anthony	A

IESO	Umeike, Ekene	A
Prepared by Ekene Umeike, please report any corrections, additions or deletions e-mail to engagement@ieso.ca		

All meeting materials are available on the IESO web site at: <http://www.ieso.ca/en/sector-participants/market-renewal/market-renewal-incremental-capacity-auction>

Introduction, Review of Agenda and Meeting Objectives – Robert Doyle

The IESO welcomed participants and outlined the day’s objectives and agenda.

Stakeholder Feedback – Ismael El-Samahy

The IESO provided a recap of the discussions held at the November 6th options meeting and then reviewed feedback that was received in response.

A participant asked whether the IESO has information on when and how often emergency events happen outside of the peak hours, typically assessed in resource adequacy studies, and whether that information could be provided to the group.

The IESO responded that the ICA team has yet to analyse those emergency events and explained that it might not be possible to share the detailed data associated with those events; however a high level summary of relevant information could be shared with stakeholders.

A participant asked how the IESO would handle a Pay-for-Performance structure for variable generation.

The IESO responded that under such a structure, rules would be applied uniformly across all resource types. Furthermore, details of how such a structure would be applied in Ontario would have to be explored further, if the IESO decided to adopt a Pay-for-Performance assessment approach.

The participant then asked whether variable generators like wind and solar participate in capacity auctions in PJM and ISO-NE. The participant also wanted to know whether they are subject to a Pay-for-Performance requirement.

The IESO confirmed that they do participate in the auctions and are subject to the Pay-for-Performance structure. However, these mechanisms have not yet been applied in practice as they are due to start in upcoming commitment periods after which it will be possible to assess how well they function.

In a follow up, the participant suggested that capacity prices may be on the increase because of the greater risk and associated costs under a Pay-for-Performance structure.

Brattle acknowledged that there is more risk and that participants are adjusting their behaviour accordingly. However, they added that, even with this increase, prices remain low and the markets are still competitive.

A participant questioned the need for the separate flexibility product being developed by the IESO (under the enabling system flexibility stakeholder engagement) since, under a Pay-for-Performance approach, flexibility will also be expected of participants in the capacity market. The participant's view was that it would lead to an unnecessary increase in overall costs.

The IESO responded that the Pay-for-Performance and the flexibility product have different objectives and are intended to incent different behaviours. The flexibility product is focused on enabling the system to quickly respond to intra-hour changes in supply and demand, while a pay-for-performance requirement would be focused on ensuring that capacity is available at the times of system peak.

A participant asked why a capacity check test is needed. The participant added that it could needlessly raise costs given that there will also be a Pay-for-Performance or Availability requirement in place. The participant suggested that financial penalties should suffice.

The IESO responded that it requires the ability to conduct capacity check tests but that it would not necessarily do so regularly. The IESO added that a capacity check test would be useful to allow the IESO to verify that the capacity it is paying for is actually available. As an example, the IESO suggested that a resource may not be called upon for months, and hence a capacity check test would be a good way to make sure the resource is actually fulfilling its capacity obligations. Brattle also added that given the rarity of penalty-inducing events, and the likelihood that excessively punitive penalties would be required to serve as deterrents over such periods, it would be useful to have multiple approaches rather than just a financial penalty.

In response, a participant sought to confirm that an intermittent resource, regularly offering capacity and as such demonstrating availability would not need to be subjected to capacity tests that would needlessly raise costs.

The IESO agreed that where availability is demonstrated by other means, e.g., production data or via certification from an Independent Engineer, capacity check tests may be unnecessary.

A participant asked whether the IESO planned to assess exemptions from a 24 hours per day Must-Offer obligation by facility or by resource type.

The IESO explained that though decisions are generally made on the basis of resource types, in the case of an exemption from a 24 hour obligation, the basis of consideration would be whether the facility or resource type cannot be available at all during certain hours.

A participant asked the IESO to consider expanding the definition of self-scheduling resources to include must-run resources such as hydro.

The IESO acknowledged the recommendation and thanked the participant for offering it.

A participant asked how a Pay-for-Performance bonus would be implemented given that participants would have to operate within the limitations of dispatch instructions. In which case, the participant questioned how participants could possibly over-perform.

The IESO explained that resources are not limited to offering only their cleared capacity into the market. Circumstances, such as more wind than usual, could allow a resource to offer in more than its cleared capacity, and if called upon by the IESO to supply that energy when needed by the system go beyond the quantum of its performance obligations.

Another participant asked whether participants would be penalized for exceeding the upper limits of their dead-bands.

The IESO pointed out that market rules for compliance with dead-band limitations already exist but that given the changing nature of the resource mix in the province it might be worth considering moving away from absolute values for dead-bands to percentage based value. Furthermore, the IESO suggested that if a resource regularly exceeds its performance obligations, it could be a sign that its level of Qualified Capacity should be increased.

Locational Considerations - Ismael El-Samahy

The IESO led a discussion on what role locational factors are expected to play in the implementation of the ICA. Among the issues discussed was the ability of the auction to support the efficient allocation of capacity to meet reliability needs.

A participant asked whether each zone will have a different Demand Curve and clearing price.

The IESO confirmed that zones would have different Demand Curves but while clearing prices could differ, that may not always be the case.

A participant asked whether each zone will have a unique Net CONE to reflect the costs in each area.

The IESO explained that determining the need for locational Demand Curves is a first step and the consideration of further location specific issues such as whether a zonal Net CONE or the system wide Net CONE will be used will follow from that determination.

A participant asked how non-firm imports are assessed for resource adequacy needs.

The IESO explained that there are multiple ways this can be done. For instance, the flows on interties during a shortage event could be analysed. Alternatively, broader analysis of historical data at the time of relevant events could be used to investigate past trends and determine acceptable levels. Brattle added that, in some instances, uncertainty has also been measured by modeling scenarios that take the generating output of neighboring jurisdictions during shortage events into account.

A participant asked whether the IESO is considering allowing market participants to participate in the energy market even if they do not participate in the capacity market.

The IESO responded that no decision has been taken in this regard, and that this issue would be part of further discussion later in the presentation on Market Power Mitigation as well as during a future stakeholder engagement in April.

A participant asked whether the topology for existing Ontario electricity zones would be the same as the proposed capacity zones.

The IESO explained that the existing zones could serve as a starting point but the capacity zones may differ if necessary.

A participant asked in what order the IESO wants procurement tools to be used to incent resources to meet reliability needs – energy, capacity or bilateral procurement.

The IESO explained that the objective is to use competitive markets where possible sending discrete price signals for the products and services the market requires, thereby ensuring lowest cost solutions are delivered for consumers. However, in the event that not all system needs are met through the capacity and energy markets, these mechanisms will need to work alongside other mechanisms including contracts and rate regulation.

ICA Demand Curve Development – Kathleen Spees

Brattle provided an overview of design objectives, experiences in other jurisdictions and the approach planned for designing a Demand Curve for Ontario.

A participant asked what gives some Demand Curves their convex shapes.

Brattle explained that curves based on marginal reliability values will typically have convex shapes because of their diminishing value.

A participant asked whether there are any informative European examples.

Brattle responded that Italy, which does not have a Demand Curve yet, is proposing to take the value-based approach used by ISO-NE further to consider overall economic value. Brattle added that using a value-based Demand Curve could affect the market's ability to acquire adequate amounts of capacity to meet reliability needs.

A participant asked whether the IESO is concerned about the amount of written feedback it has received and what plans it has for handling it.

The IESO responded that it is mindful of the feedback received and that efforts are made to record, consider and respond to all feedback. The IESO also encouraged stakeholders to keep providing feedback.

A participant asked how sensitive Brattle's analysis is to the reference technology (Basis for Reference Price).

Brattle responded that it intends to do sensitivity analysis around Net CONE. Brattle added that a good Demand Curve will perform well under a wide range of uncertainty in Net CONE, and will be an important part of managing uncertainty around Basis for Reference Price as well.

A participant asked whether Brattle would be looking separately at winter, summer or annual periods when developing a Demand Curve. Furthermore, the participant asked about what kind of feedback Brattle is hoping to get from stakeholders regarding their analysis.

Brattle explained that stakeholder suggestions and input to inform the design approach are welcome. With regards to seasonal or annual constructs, Brattle added that its analysis would consider both options.

Market Power Mitigation – Stephen Nusbaum

The IESO led a discussion on ways in which market power might be exercised in the ICA and then presented options being considered for mitigating that risk without negatively impacting the market.

A participant asked whether there is currently a ballpark figure for the threshold below which participants won't be subject to a Must-Offer obligation.

The IESO referred the participant to an example in the presentation from MISO and explained that at the moment, specifics for Ontario have not yet been discussed.

A participant asked whether contracted and rate regulated resources will be subject to the Must-Offer requirement.

The IESO responded that, given that contracted resources are not eligible to participate in the ICA, no Must-Offer obligations will be imposed on them from the ICA. However, they may be subject to additional requirements from the Day-Ahead Market.

A participant asked how reference prices for demand response resources would be determined to mitigate the abuse of market power.

Brattle explained that in a lot of markets, demand response resources are typically not subject to the same measures as other resources because they generally do not have market power and their costs are more difficult to assess.

A participant asked whether a lack of market power means there will be no mitigation and if as a consequence, demand response resources can offer whatever price they want.

The IESO responded that market participants will be free to determine their offers as long as they do not contravene Market Rules.

A participant asked who typically handles dispute resolutions regarding the determination of reference levels in other jurisdictions.

Brattle explained that proposed reference levels are usually reviewed periodically by FERC and that, during that review process, disagreements with the system operator can be raised.

A participant asked why contracted capacity was being considered as part of the discussion on price suppression since they will be excluded from the capacity auction.

The IESO explained that in this context, a broader meaning of contracts was considered to account for a variety of existing contract types and possible future contract types that could allow for or require participation in the capacity auction.

Cost Recovery - Stephen Nusbaum

The IESO led a discussion on costs associated with procuring capacity via the ICA and options for how they might be allocated to customers.

A participant asked whether the Global Adjustment mechanism will remain system wide rather than transition to being zonal.

The IESO responded that cost allocation of Global Adjustment is independent from cost allocation under the ICA.

A participant asked whether after zones, going down to the level of distribution companies would be the next logical step in allocating capacity costs.

The IESO welcomed the comment and added that though it was beyond the scope of current discussions, it is something that could be considered for the future.

A participant asked whether there is any jurisdiction that has capacity zones but allocates costs system wide

The IESO responded that it is unaware of any examples.

A participant asked whether any other jurisdictions allow large loads to reduce their consumption during system peaks in order to avoid costs, and whether such avoidance simply shifts that cost to other consumers whose contributions are determined on a volumetric basis.

Brattle explained that in most other capacity markets, contributions to peak demand are assessed on a customer specific basis and then summed up at the distributor (load serving entity or LSE) level to determine what the LSE's contributions will be. How that cost is then distributed across different customer classes differs by LSE and is subject to regulatory oversight.

The IESO thanked participants and reiterated feedback is appreciated and should be sent to: engagement@ieso.ca.

The next ICA meeting is scheduled for March 7, 2018.