

Incremental Capacity Auction (ICA) – Stakeholder Feedback Form

Stakeholder Meeting: January 24th, 2018

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The IESO held the fourth meeting of the ‘Options Phase’ of the Market Renewal – Incremental Capacity Auction engagement on January 24th, 2018.

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 (reference slide numbers where applicable)
- Identify any aspects that you believe require further elaboration or discussion

Please provide feedback by **February 21, 2018** to engagement@ieso.ca. Feedback received will be summarized and will help inform further discussions at future stakeholder engagement meetings.

Design Element	Features	Questions/Next Steps/Recommendations	Stakeholder Feedback
<p>Locational Considerations – Part 1</p>	<p>(1a) Capacity Zones - Transmission Limitations</p> <p><i>Slides 34-37</i></p>	<p><i>Please provide any comments or feedback you may have related to this sub-feature.</i></p>	<p>Capital Power supports the principles to be used by the IESO to establish capacity zones (slide 33). These principles will support efficiency in the market, and are critical to long term sustainability of the capacity market.</p> <p>Recognition of transmission limitations is a necessary consideration for delineating capacity zones. Recognition of import and export constrained areas is necessary to properly recognize the locational value of assets and ensure reliability. This, however, must be balanced with the principles of market efficiency, and the importance of creating a market with price signals that are reflective of the underlying value of products.</p> <p>With the expectation that resources participating in the capacity market at inception will be limited, it is critical to ensure capacity zones are defined in such a way that encourages competitive market outcomes.</p> <p>Capital Power submits that consideration should be given to how capacity zones may be phased in over time, based on an expectation that the volume of resources participating over time will increase. This would be supportive of proper price formation, and would allow for refinement of capacity zones over time.</p>

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	<p>(1b) Capacity Zones - Reasonably Stable & Predictable</p> <p>Slides 38-40</p>	<p><i>Please provide any comments or feedback you may have related to this sub-feature.</i></p>	<p>Capital Power supports capacity zones that are reasonably stable and predictable. This is an important element that will support investor confidence in the market, and will attract new investment.</p> <p>However, consideration should be given to the transition period, during which the volume of resources participating in the market is expected to be limited.</p> <p>When phasing in a capacity zones, Capital Power submits that a schedule that clearly defines the transition in zones should be established. This should be based on underlying assumptions of market depth as contracts reach end-of-life and more resources participate in the capacity market. Establishing this transition in capacity zones will ensure competitive market outcomes are achieved at the outset of the capacity market.</p>
	<p>(1c) Capacity Zones – Reasonable Size</p> <p>Slides 41-43</p>	<p><i>Please provide any comments or feedback you may have related to this sub-feature.</i></p>	<p>Capital Power submits that capacity zones must be established which encourage sufficient competition to achieve competitive market outcomes. Lack of competition, which results in mitigation or use of regulatory intervention that moves away from competitive outcomes, will be detrimental to the long term development of a capacity market. Consideration must be given to how zones can be defined to encourage competition and improve price formation.</p> <p>In establishing capacity zones, it will be necessary to establish demand curves and local reliability metrics. Defining these measures in a market that lacks sufficient depth will significantly increase the risk of error. At lower levels of granularity, the risks inherent in modeling</p>

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			these market fundamentals will increase the risk of over or under procurement.
	(2) Zonal Maximum Capacity <i>Slides 44-47</i>	<i>Please provide any comments or feedback you may have related to this feature.</i>	Capital Power submits that it is reasonable to establish maximum capacity requirements in export-constrained zones.
	(3) Zonal Minimum Capacity <i>Slides 48-52</i>	<i>Please provide any comments or feedback you may have related to this feature.</i>	<p>Local reliability requirements in import-constrained zones will require minimum levels of capacity to serve load. The procurement targets set by the IESO must reflect this local capacity requirement in the demand curve.</p> <p>At the minimum level of capacity that is required to reliably serve load, the demand curve should set capacity prices at level that provides sufficient incentives for investment.</p> <p>In establishing a market that achieves reliability targets in zones with local import constraints, it is critical to allow prices to reflect the true costs of providing services in the zone. Over mitigation in these zones risks muting the price signals that are necessary to attract investment and maintain existing assets.</p>
	(4) Deliverability <i>Slides 53-60</i>	<i>Please provide any comments or feedback you</i>	Capital Power supports a process to ensure there is adequate deliverability for a resource within the system; this should be considered in determining the qualified capacity for auction purposes.

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		<i>may have related to this feature.</i>	
	(5) Locational Clearing Slides 61-66	<i>Please provide any comments or feedback you may have related to this feature.</i>	Capital Power supports locational clearing in capacity markets. There is concern, however, that at the outset of the market, there may be insufficient participation to ensure competitive outcomes at a zonal level. Capital Power supports development of a market that sets out a transition period, during which zones are refined as participation increases. Long term success of a capacity market requires competitive outcomes, particularly at market inception.
<p>Proposed Approach for Demand Curve Development <i>(The Brattle Group Presentation)</i></p>		<p>QUESTION: What unique features of Ontario’s market should be accounted for when developing the ICA demand curve?</p> <p>QUESTION: What questions do stakeholders have about proposed model approach?</p> <p>QUESTION: What specific metrics should be used to evaluate demand curve performance?</p> <p>QUESTION: What specific demand curve shapes or performance questions</p>	<p>Capital Power submits that discussion of governance should be included in the demand curve development process. Ensuring proper accountability for defining and administering each aspect of the demand curve is important to ensure proper functioning of the market. Further, the clarification and confirmation of the governance process will improve investor confidence and encourage investment.</p>

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		would be helpful to evaluate? QUESTION: What scenarios would be helpful to evaluate?	
Market Power Mitigation	(1) Physical Withholding <i>Slides 75-83</i>	RECOMMENDATION: The IESO recommends that a must-offer requirement into the capacity auction is implemented to help mitigate for physical withholding If stakeholders agree with this approach, the next step will be to determine which resources will be required to offer into the auction.	A must-offer requirement in the capacity market for eligible resources would improve liquidity and encourage participation in capacity auctions. Obligations to qualify and commit capacity in advance of auctions will provide visibility to market participants of the supply fundamentals, encouraging competition.
		QUESTION: Under a must-offer obligation into the capacity auction, what type of exemptions may be appropriate to consider?	

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	(2a) Economic Withholding - Methodology <i>Slides 85-92</i>	<p>NEXT STEPS: The IESO, taking into account stakeholder input, will determine the methodology for the ICA. The methodology should ideally result in:</p> <ul style="list-style-type: none"> • Efficient incentives • Market outcomes consistent with competitive participation • Minimal market intervention 	<p>Capital Power supports the objectives described. In establishing a mitigation framework, it is imperative that the broader market design be constructed in such a way that encourages competition and minimizes the need for mitigation.</p>
	2(b) Economic Withholding – Reference Level Determination <i>Slides 93-97</i>	<p>Please identify preferred option and provide supporting rationale:</p> <p>OPTIONS:</p> <ol style="list-style-type: none"> 1. Cost submissions assessed by, and reference levels determined by, an independent third-party 2. Cost submissions assessed by, and reference levels determined by, the IESO (likely 	<p>Capital Power supports Option 1: establishing a process whereby an independent third-party assess and determines reference levels. Having an independent third-party complete this task ensures appropriate division of accountabilities. Further, it ensures that appropriate technical expertise is retained to determine reference levels.</p> <p>Capital Power supports the development of a dispute resolution mechanism in the reference level determination process. This process should include some mechanism to appeal and provide justification through supporting documentation of unit-specific costs.</p>

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		involving third party consultation) QUESTION: Who should determine the reference levels for the ICA? QUESTION: With what frequency should reference levels be determined? QUESTION: What process should exist for dispute resolution of reference level determination?	
		NEXT STEPS: The IESO, taking into account stakeholder feedback, will make recommendations on reference level determination	N/A
	(2c) Economic Withholding – Managing Auction-Related Information <i>Slides 98-101</i>	An appropriate amount of information should balance potential benefits (more efficient participation) against potential costs (commercial sensitivities	Capital Power supports the publication and distribution of information which improves price discovery and encourages competition. The distribution of information should be conducted equitably and in a manner which does not prejudice particular technologies or market participants.

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		and increased exposure to the exercise of market power) QUESTION: Do stakeholders have any comments on the type of information that should be made available before, during and following each auction?	
	(3) Inefficient Suppression of Capacity Auction Prices <i>Slides 102-111</i>	<u>SUBSIDIZED ENTRY RISK</u> QUESTION: If a MOPR mechanism is implemented to alleviate any price suppression concerns, what type of exemptions may be appropriate? <u>TARGET CAPACITY RISK</u> QUESTION: Aside from well-documented processes for determining the target capacity, are there any additional mechanisms that stakeholders think the IESO should consider to	Capital Power submits that to mitigate risks related to procurement targets, proper governance is necessary to ensure markets can function in a competitive manner. Administering procurement targets should be done in a manner which seeks to ensure reliability while allowing market participants to respond to price signals.

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		help alleviate any concerns?	
		NEXT STEPS: The IESO will explore these issues in more detail along with stakeholder feedback and identify potential options that may work in the Ontario-context	N/A
Cost Recovery	(1) Customer Base	RECOMMENDATION: Recover costs from internal loads only (i.e., Option 1 or 2, not including exports)	No Comment
	<i>Slides 118-121</i>	NEXT STEPS: The IESO will work with relevant parties to determine whether or not load displaced through embedded generation should be included in the customer base	No Comment

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	(2) Zonal vs. System-Wide Allocation <i>Slides 122-125</i>	<p>NEXT STEPS: The IESO will work with relevant parties to determine whether costs should be allocated on a zonal or system wide basis</p> <ul style="list-style-type: none"> • Will need to consider inter-related design elements and anticipated outcomes from other MRP streams (e.g., load pricing methodology under SSM) • If the zonal option is selected, will need to consider how to allocate costs within a zone as part of the detailed design 	No Comment
	(3) Allocation Methodology <i>Slides 126-128</i>	<p>NEXT STEPS: The IESO will work with relevant parties to determine the appropriate capacity cost allocation methodology to</p>	No Comment

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		be used for recovering ICA costs	

General Comments/Feedback: