

Market Renewal Incremental Capacity Auction

Meeting 8: Response to Stakeholder Feedback

Following the January 24th Incremental Capacity Auction (ICA) stakeholder meeting, the IESO invited stakeholders to provide comments and feedback on a series of design options 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:

APPrO

Capital Power Corporation

EnerNOC

Nalcor Energy Marketing

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

Note on Feedback Summary

All feedback received has been noted and will be considered as the engagement moves toward making preliminary decisions. Stakeholders will have additional opportunities to provide feedback on these elements throughout the high level and detailed design phases of the engagement. 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.

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

- Support for excluding exports from the customer base for cost recovery.
- Support for the creation of capacity zones to encourage competition.
- How often capacity zones should be reviewed to deliver stability.
- Circumstances under which minimum and maximum zonal capacity targets should be defined.

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.

Stakeholder comments and IESO responses

Design Element	Company	Feedback	IESO Response
Locational Considerations	Nalcor Energy Marketing	<p>Firm transmission rights to the intertie should not be a necessity. If market participants are forced to have firm rights to the intertie, it would 1) impose an unnecessary barrier to entry for market participants, and 2) unnecessarily elevate the offer price of capacity which would lead to a higher cost for procurement.</p> <p>To deal with the fact that Ontario does not have firm transmission rights (as per p. 59), the IESO could evaluate import capacity offers by comparing:</p> <ul style="list-style-type: none"> - the amount of capacity offered; - the transmission capacity of the intertie; and - historical flows and historical available transmission capacity on the path. 	<p>The IESO will develop a process to determine the degree to which the interties could be utilized for capacity imports, which will consider physical capability and market requirements. Ensuring deliverability from a resource in another jurisdiction to the Ontario intertie is important as it provides assurance that the resource is capable of meeting system adequacy needs. This assurance can be in the form of examining deliverability rights or performing an analysis to show the resource is deliverable to the Ontario intertie.</p> <p>Once the deliverability to the intertie is</p>

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		Comparing these three items will give a clear picture as to whether the IESO can accept the amount of offered capacity.	confirmed, these capacity imports are still subject to deliverability assessment through the Ontario internal system, just like other resources within Ontario.
Locational Considerations	APPrO	APPrO does not support capacity zone sizes to be set in the proposed manner. To support a properly functioning capacity market it is critical that zones are primarily defined by the electrical system and not arbitrarily.	Zone boundaries will primarily be based on transmission limitations that reduce the grid's ability to transfer energy from sources to loads. However, the size of the established zones may then be examined, as part of the ICA detailed design phase, to determine whether a minimum size threshold should be set; this will consider any relevant Market Power Mitigation mechanisms that will be created as part of the ICA detailed design.
Locational Considerations	APPrO	What is the intended process if zonal minimum capacity is not reached?	The ICA is intended to procure capacity to meet the system-wide adequacy needs, which includes meeting zonal minimum capacity requirements. In circumstances where resources cleared through the ICA do not meet the zonal minimum capacity, other tools and/or short-term solutions may be required, including out of market actions.

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Locational Considerations	APPrO	Does the IESO intend to apply deliverability rules equally to ICA market participants and non-ICA capacity (i.e. under contract or rate regulation) resources?	<p>Deliverability implications in the ICA will be specific to auction participants and will not be applicable to existing contracted or rate regulated facilities.</p> <p>For the purpose of setting Target Capacity for the ICA, it will be important to properly account for the contribution of all existing resources towards meeting resource adequacy requirements.</p>
Proposed Approach for Demand Curve Development	APPrO	In the presentation, Objectives to Consider in a Demand Curve Brattle notes on slide 12 that stakeholders in New England engaged in an iterative, collaborative process with ISO-NE to identify and evaluate a range of potential demand curves and that the final ISO-NE proposed curve was a consensus recommendation within the workable range, and reflecting a balance of design objectives. Given this experience please confirm that the current IESO process is but a first step in a similar process.	<p>Stakeholder engagement is an aspect of the Participation Model that the IESO introduced at the April 19 stakeholder engagement session and will discuss further at upcoming stakeholder engagement sessions, informed by the stakeholder feedback received to date and the ongoing governance discussions at the Market Renewal Working Group (MRWG).</p> <p>Stakeholders will have the opportunity to provide feedback at upcoming stakeholder engagement sessions on the demand curve and the Participation Model, as well as through the feedback process associated with the ICA high level design (HLD).</p>

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Proposed Approach for Demand Curve Development	APPrO	What reference technologies are being evaluated?	The type of reference technology, referred to as “basis of reference price” in ICA design, is part of establishing Net CONE for the ICA in the detailed design phase. To date, no specific technology has been evaluated as the basis of reference price in Ontario. The demand curve analysis is examining the sensitivity of the outcome of the analysis to the value of the Net CONE based on a wide variety of reference technologies.
Proposed Approach for Demand Curve Development	APPrO	Has there been any experience in other capacity markets of utilizing a reference technology other than one based on gas fired generation? [Please note the following: Historical rulings at the FERC (Federal Energy Regulatory Commission) in the United States on capacity markets have determined that CONE needs to be set on resources that can be implemented in the forward period]	The IESO is not aware of any other jurisdictions utilizing a reference technology other than gas generation to date.
Proposed Approach for Demand Curve Development	APPrO	How sensitive is the study to the reference technology?	The demand curve analysis is examining the sensitivity of the outcome of the analysis to the value of the Net CONE. Further details regarding demand curve analysis, including the type of information requested here, will be communicated with stakeholders in future engagement sessions.

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Proposed Approach for Demand Curve Development	APPrO	How relevant are the results in the absence of the confirmation of the reference technology?	The demand curve analysis is examining the sensitivity of the outcome of the analysis to the value of the Net CONE. Further details regarding demand curve analysis, including the type of information requested here, will be communicated with stakeholders in future engagement sessions.
Proposed Approach for Demand Curve Development	EnerNOC	To provide a recommendation on the proposal (sloped demand curve similar to ISO-NE) versus a flat demand curve, EnerNOC requests that further information is provided: <ul style="list-style-type: none"> - Reserve margin - Maximum allocation - Maximum price Further information and analysis will allow for an informed recommendation.	Further details regarding demand curve analysis, including the type of information requested here, will be communicated with stakeholders in future engagement sessions.
Market Power Mitigation	APPrO	How does the IESO propose to evaluate going forward costs for existing assets, and who makes the decision on de-list criteria and decisions? How does the governance process tie into this?	As presented in the stakeholder engagement session, it is proposed that the components and calculation of going forward costs be established by a third party for both new and existing resources. A well-defined process and associated criteria to facilitate exit will be explored as a potential exemption to a must-offer requirement, informed by stakeholder feedback and the ongoing governance discussions at the MRWG.

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Market Power Mitigation	APPrO	<p>Given Ontario’s unique structure with the IESO as a single capacity buyer, could the IESO elaborate on how a MOPR would be implemented or how it could affect the market?</p>	<p>A MOPR type mechanism is a feature used in some jurisdictions to help prevent the inefficient suppression of capacity auction prices associated with the participation of resources that are subsidized or facilitated by the government for policy purposes. As part of the high level design, the IESO intends to explore the merits of implementing this type of mechanism in the Ontario context, informed by stakeholder feedback and the ongoing governance discussions at the MRWG.</p>
General	APPrO	<p>With respect to capacity export rules APPrO would like to understand what are the capacity export rules and how do they apply to non-ICA (i.e. those under contract or rate regulation) and ICA resources?</p> <p>APPrO believes that those resources who no longer clear the Ontario ICA (either in full or in part) and consequently no longer have a capacity supply obligation to Ontario (either in full or in part) and who request that they be allowed to export their available capacity should be given priority on the interties. The rationale is that these resources will have a greater risk from pay-for-performance or pay-for-availability rules as well as risk on return of and on invested capital versus contracted or rate regulated resources. This is a unique feature to Ontario due to the</p>	<p>The Enabling Capacity Exports initiative is multi-phased. More information about the current phase of can be found here: http://www.ieso.ca/en/sector-participants/market-renewal/capacity-exports.</p> <p>The current stakeholding has been focused on implementing processes and rules which will allow for capacity exports in the pre-MRP implementation timeframe. As MRP is implemented, the next phase of the Enabling Capacity Exports initiative will assess and determine the need for changes to the framework to align with MRP, including the ICA. Issues such as these will be addressed as part of that phase of the Enabling</p>

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		"incremental" nature of the capacity auction.	Capacity Exports initiative, which will be informed by the stakeholder feedback received.

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