

Incremental Capacity Auction (ICA) – Stakeholder Feedback Form

Stakeholder Meeting: April 19, 2018

Date Submitted: <i>2018/05/17</i>	Feedback provided by: Company Name: <u>APPrO</u> Contact Name: <u>David Butters</u> Phone: <u>[REDACTED]</u> Email: <u>[REDACTED]</u>
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The IESO held the seventh meeting of the ‘Options Phase’ of the Market Renewal – Incremental Capacity Auction engagement on April 19, 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 **May 17, 2018** to engagement@ieso.ca. Feedback received will be summarized and will help inform further discussions at future stakeholder engagement meetings.

Topic/Design Element	Features	Questions/Next Steps/Recommendations	Stakeholder Feedback
<p>Decision Phase Work Plan</p>	<p><i>Slides 25-36</i></p>	<p>NEXT STEPS: The next stakeholder session will be held on June 14, 2018 and will include: – Presentation on the results of the Demand Curve modelling – Summary of the SE feedback from March 7/April 19</p> <p>Sessions following this will be held on September 12, 2018 (Participation Model: Vision) and October 16, 2018 (Participation Model: Preliminary Decisions)</p> <p>Stakeholders interested in attending these sessions are encouraged to block off these dates in their calendars</p>	<p>APPo looks forward to these upcoming sessions. APPo is concerned about the speed of progress on technical studies and IESO decisions to support the formation of the Participation model. These elements, and especially technical studies (i.e. net-CONE, intertie capacity limit values, internal transmission interface capacity limit values) have not started but are needed regardless of the state of the high level design (HLD) and to inform future participants about the needs of the IESO and the market going forward. While the design of the ICA is important, a successful ICA also requires robust participation which requires a certain amount of lead time with developers who understand the future status of the electricity system.</p> <p>APPo suggests that these studies where possible are expedited to support a successful future ICA.</p>
<p>ICA Schedule Checkpoint</p>	<p><i>Slides 38-43</i></p>	<p><i>Please provide any comments you may have on this section of the presentation.</i></p>	<p>APPo is concerned that the IESO is assuming that 100% of existing resources no longer under contract as of 2021 will participate and clear an ICA and that there will be sufficient revenue in the ICA to support these resources. The schedule should be based on capacity needs, and APPo recommends that a ICA high level and detailed design should be based on a 2021 timeframe for the first ICA.</p>

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			<p>APPPrO once again points out that the IESO is assuming capacity needs can be met without the need for new build generation. APPPrO believes that a capacity needs study should be for the 2021 timeframe to provide confidence in this assumption.</p> <p>APPPrO is concerned that based on slide 40, the IESO may opt to delay the ICA until 2023 and continue with alternative procurements that either exclude resource types (i.e. generation) or are not competitively based such as the demand response auction, directed procurements or sole-source re-contracting. APPPrO continues to observe annual demand response auctions occurring to the exclusion of existing or potentially new generating resources.</p>
APRIL 19 DESIGN ELEMENTS			
Locational Considerations	(1a) Capacity Zones – Transmission Limitations <i>Slides 53-57</i>	NEXT STEPS: As part of the detailed design, IESO will establish necessary processes to incorporate transmission limitations in the formation of Capacity Zones for the ICA	
	(1b) Capacity Zones – Reasonably Stable and Predictable	OPTIONS: (1) A fixed periodicity (2) A material change to the system (3) Combination of 1&2	APPPrO supports option 1 on a periodic basis which should be sufficient to handle the effects of any material changes to the system. APPPrO would

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	<i>Slides 58-62</i>	<p>RECOMMENDATION: Pursue Option 3 and establish criteria for when a review would be triggered</p>	<p>support option 3 if the minimum periodic review is annually.</p> <p>As stated in APPrO’s submission on February 21st, 2018, APPrO reiterates that it is critical to complete the assessment and review it through a stakeholder process under an appropriate stakeholder approved decision-making provisions. The process should be finalized prior to each ICA, allowing as much time as possible to suppliers and thus encouraging greater participation.</p>
		<p>QUESTION: How often should the IESO review the Capacity Zones?</p> <p>QUESTION: Should this review be aligned with other relevant activities (e.g., Planning, ICA or others)?</p>	<p>As stated in APPrO’s submission on February 21st, annually.</p> <p>As stated in the submission on February 21st, it should be aligned with at a minimum the ICA process to inform ICA participants prior to each ICA as well as be aligned with Planning activities such as transmission and supply and demand changes.</p>
	<p>(1c) Capacity Zones – Reasonable Size</p> <p><i>Slides 63-66</i></p>	<p>NEXT STEPS: During detailed design, and as part of developing the required processes to establish ICA zones and the associated zonal maximum and minimum capacity, the IESO will further explore the need for identifying a minimum size threshold</p>	<p>As stated in the submission on February 21st:</p> <p>APPrO does not support capacity zone sizes to be set in this manner. <u>To support a properly functioning capacity market (ICA) it is critical that zones are primarily defined by the electrical system and not arbitrarily.</u></p>

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	(2) Zonal Maximum Capacity <i>Slides 67-72</i>	NEXT STEPS: The IESO will review the two approaches to determine which option is better suited for the purpose of establishing the maximum capacity that can be acquired in an export-constrained Capacity Zone	As stated in the submission on February 21 st : APPrO supports the setting of Zonal Maximum Capacity to limit capacity acquired in the ICA within an export constrained Capacity Zone to allow conformance to resource adequacy criteria (i.e. load plus maximum export limit). Zonal Maximum Capacity should be assessed using a probabilistic method similar to ISO-NE. It is however critical to know the method to determine the zonal maximum and the zonal export limits (including external interties as applicable) as well as the capacity values allocated to each [resource].
	(3) Zonal Minimum Capacity <i>Slides 73-77</i>	NEXT STEPS: The IESO will establish, as part of the detailed design, a process to determine Zonal Minimum Capacity for import constrained zones, if required	As stated in the submission on February 21 st : As above in section 1(c) APPrO believes that zonal minimum capacity should be set by electrical system constraints. APPrO would further discourage the IESO from relying on reliability-must-run (RMR) contracts

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			<p>(with existing resources) except in specific instances where resource adequacy cannot be met within a specific zone within the required timeframe. The use of RMR contracts with existing resources discourages appropriate investment by suppressing scarcity pricing, further exacerbating the supply issues.</p> <p>APPo would encourage the IESO to expeditiously complete and publish the results of their assessment of the possible capability/contribution from the interties to supply capacity to meet Ontario’s resource adequacy. At present, this is a material uncertainty to existing suppliers and developers of new resources.</p> <p>Capacity imports from each interconnection could support Ontario’s system level as well as zonal level adequacy needs. The study should take into account the amount of capacity import support that can be relied upon from each interconnection at their respective determined capacity values.</p> <p>This study is critical in determining the future supply demand balance and in defining when and where new capacity may be required. Given the long lead time required for new or upgraded/expanded capacity, it is in the interest of the IESO to provide this information as soon as</p>

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			<p>possible in order to provide appropriate investment signals to investors.</p> <p>Additionally, the IESO should define the intended process if zonal minimum capacity is not reached.</p>
	<p>(4) Deliverability <i>Slides 80-93</i></p>	<p>NEXT STEPS: IESO will further explore the presented preliminary IESO vision taking into consideration the feedback provided by stakeholders</p> <p>The IESO will also review the current CAA process while developing the deliverability assessment to determine whether the deliverability assessment should be an independent process or should it be part of the CAA process</p>	<p>As stated in the submission on February 21st:</p> <p>Deliverability within Ontario: APPrO believes that deliverability of capacity within Ontario from a specific resource to the system should include system-wide deliverability and/or deliverability within the resource’s local zone (similar to ISO-NE). Qualification of capacity from external resources (imports) should take into consideration deliverability to the interties and the intertie capacity values.</p> <p>The rules surrounding the resource connection rules for capacity resources need to be established expeditiously. This is an important first step to provide clarity to developers to support investment. Are resources studied individually or in clusters and how are queueing rules established? What are the rules, timelines, etc.? APPrO agrees with the IESO’s position that once deliverability rights have been granted, they should be maintained by the IESO in perpetuity without charging the generator for any future</p>

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			<p>network upgrades. However, APPrO believes that in a properly functioning capacity market the connection room should only be maintained until the point at which the resource is delisted or retired with time allowance to allow for the resource to rebuild. The appropriate time must be discussed and stakeholdered.</p>
		<p>NEXT STEPS: IESO will examine how to create a simple method that could provide an indicative estimate of available transmission capability prior to resource qualification</p>	<p>APPrO supports this approach.</p>
	<p>(4) Deliverability – Pre Auction Deliverability Indication <i>Slides 94-98</i></p>	<p>QUESTION: What type of information do stakeholders feel is important to be made available before, during and following each auction?</p>	<p>APPrO believes that before each auction the following information is needed at a minimum and should otherwise align with ISO-NE:</p> <ol style="list-style-type: none"> 1. Current Capacity value of the interties, as studied by GE-GADS or similar, on the same seasonal basis as the ICA 2. Current Capacity value of each resource (whether transmission, distribution, generator, demand response) on the same seasonal basis as the ICA 3. Current Capacity transfer limits in between each internal Capacity zone. 4. Parameters associated with the ICA auction methodology including but not limited to the following: installed capacity requirement for the system and zonally,

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			<p>system capacity commitments with other jurisdictions, zonal minimum and maximum capacity values, designations of any generators or zones that price or offer constrained, net-CONE, gross-CONE, de-list prices, slope of the demand curve for each zone, minimum offer price levels, etc.</p> <p>APPo believes that during each auction the following information is needed at a minimum and should otherwise align with ISO-NE:</p> <ol style="list-style-type: none"> 1. Whether or not multi-year commitments (MYC) are offered for eligible resources 2. The real-time or current auction price, system wide and zonally 3. The amount of resources cleared corresponding to the auction price 4. The auction round, if applicable <p>APPo believes that following each auction the following information is needed at a minimum and should otherwise align with ISO-NE:</p> <ol style="list-style-type: none"> 1. Capacity prices and resources cleared in each zone and system wide 2. The LOLE level established at final auction clearing for each zone and system wide 3. The amount of existing and new resources cleared, and the amounts cleared under MYCs if applicable.

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	<p>(5) Locational Clearing</p> <p><i>Slides 99-100</i></p>	<p>Following completion of the demand curve modelling analysis currently underway, the IESO plans to further model the potential market outcomes of the two clearing approaches discussed on slide 99</p> <p>Regardless of the approach used, the clearing mechanism will aim to result in transparent auction clearing prices that signal the value of capacity within a defined zone in Ontario</p>	<p>APPPrO supports the modelling analysis and looks forward to reviewing and commenting on the analysis. As previously stated in the submission on February 21st:</p> <p>APPPrO supports the need to establish an approach to reflect locational constraints in auction clearing outcomes. With respect to the two approaches proposed, APPPrO supports Approach #2 - the use of using a location-specific downward sloping demand curve to reflect locational constraints in auction clearing outcomes.</p>

General Comments/Feedback:

As stated in our February 21st submission, with respect to capacity export rules, APPPrO 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? APPPrO 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 “incremental” nature of the capacity auction.

APPPrO would like to note that each of the topics of locational considerations, demand curve development, market power mitigation and cost recovery have significant ramifications to participants and were the result of extensive work and individual stakeholdering processes over extended periods in other jurisdictions. For many participants in the Ontario ICA stakeholder sessions, capacity auctions are new and require research and comprehension before meaningful comments or input can be provided. Except for those entities that have operated in other jurisdictions, there is no experience base to draw from in Ontario.

Furthermore, as previously stated by APPPrO, transparency is critical to the success of the ICA. The IESO should consider expediting information on the future ICA participant model.

Lastly and as already stated in this and other APPPrO submissions, governance remains a critical issue for market renewal and the ICA as it is key to investor confidence. How this issue is managed will directly impact the success or failure of the ICA and whether or not it can credibly claim that it can meet any of its objectives.

Note: APPPrO is a trade association representing Ontario IPPs and over 100 suppliers of services, equipment and consulting services. APPPrO members produce power from co-generation, hydro-electric, gas, nuclear, wind, energy waste wood and other sources. Generator members include:

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