

# Market Renewal Incremental Capacity Auction

## April 2018: Response to Stakeholder Feedback

Following the April 19<sup>th</sup> 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:

- Advanced Energy Management Alliance
- APPrO
- City of Toronto

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

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 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 to specific feedback or questions.

## Stakeholder comments and IESO responses

Design Element	Stakeholder	Feedback	IESO Response
General	APPrO	<p>APPrO 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, inertia 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>APPrO suggests that these studies where possible are expedited to support a successful future ICA.</p>	<p>The IESO's approach to the HLD decisions will be guided by necessary analyses to provide the rationale for choosing a specific design option.</p> <p>The IESO does recognize the importance of providing clear signals to the market around anticipated needs in a timely manner. As such, the IESO will be engaging stakeholders in the fall of 2018 to discuss long term bulk planning needs.</p>

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General	APPrO	<p>APPrO 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 APPrO recommends that an ICA high level and detailed design should be based on a 2021 timeframe for the first ICA.</p> <p>The IESO is assuming capacity needs can be met without the need for new build generation. APPrO believes that a capacity needs study should be for the 2021 timeframe to provide confidence in this assumption.</p>	<p>The IESO will ensure that timelines will be in-line with the expectations for the first auction and the associated activities. The date of the first ICA will be determined based on both the updated supply/demand forecast to inform when capacity needs will emerge (will be communicated with stakeholders in the fall), and the updated project development and implementation timelines; the outcome of these two factors may impact the first auction expectations and requirements.</p>
General	APPrO	<p>APPrO 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. APPrO continues to observe annual demand response auctions occurring to the exclusion of existing or potentially new generating resources.</p>	<p>The IESO has stated that its goal is to have the first auction ready to help secure incremental capacity when needs begin to emerge in the early to mid-2020s. The IESO is committed to maximizing the use of competitive procurement mechanisms to meet system needs whenever feasible.</p>

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Locational Considerations	APPPrO	APPPrO does not support capacity zone sizes to be set in this manner. To support a properly functioning capacity market (ICA) it is critical that zones are primarily defined by the electrical system and not arbitrarily.	Capacity zones will not be set arbitrarily and will be guided by the physical limitations of the transmission system. As part of the detailed design, the IESO will establish necessary processes to incorporate transmission limitations in the formation of Capacity Zones.
Locational Considerations	APPPrO	The IESO should define the intended process if zonal minimum capacity is not reached.	In situations when the ICA does not clear at least the Zonal Minimum Capacity, out-of-market actions (e.g., RMR contracts) may be required. The details of this process are currently under review and will be further developed as part of detailed design.
Locational Considerations	APPPrO	<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.?</p> <p>APPPrO 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 network upgrades. However, APPPrO believes that</p>	<p>The details of connection rules and deliverability will be developed as part of detailed design. The IESO will ensure that timelines will be in-line with the expectations for the first auction and the associated activities.</p> <p>The information provided for US jurisdictions in regards to granting deliverability rights was not an indication to the IESO position on this topic. IESO is currently reviewing the Ontario context and the considerations involved with providing participant deliverability assurance for longer than a single commitment period.</p>

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		<p>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>	
General	APPPrO	<p>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.</p>	<p>The rules, processes and procedures which will govern capacity exports post ICA and MRP implementations will be determined through future stakeholder engagement activities. However, it is envisioned that as today should a market participant wish to export their capacity to an external control area, they must submit a request to the IESO. The IESO will then evaluate the request based on a series of assessments and determine if the resource is eligible to participate (in full or partially) in the export of capacity opportunity. Resources which are unsuccessful in the ICA will not have a capacity obligation to Ontario, and as such will not be evaluated on this measure. However, other reviews may still limit or exclude a capacity resource from pursuing a capacity export opportunity. Please see the current Enabling Capacity Exports stakeholder engagement for more information on the current review process.</p>

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			<p>In terms of your comment concerning scheduling on the interties, in order for an export transaction to be treated as a Called Capacity Export, a market participant must submit a bid at Maximum Market Clearing Price (MMCP). This gives the Called Capacity Export transaction economic scheduling priority over all other exports <u>not bid at MMCP</u>. In order to respect market economics to the greatest extent possible, the Called Capacity Export will be scheduled pro-rata with other transactions bid at MMCP, unless the IESO has cut exports on the interface to below the called amount due to an Ontario global adequacy shortfall. In that case, the called Capacity Export will be maintained at a level necessary to ensure that the total amount delivered to the calling jurisdiction equals the called amount. IESO agreements with importing jurisdictions will include consideration of methods to ensure that participants pay-for-performance compliance can be confirmed when pro-rata scheduling occurs.</p>
Locational Considerations	City of Toronto	Will the IESO be working with the LDC to incorporate distribution limits when defining nodal zones?	Capacity Zones would primarily be based on limitations on transmission system. As such, LDCs are not expected to be involved

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			in creating Capacity Zones, however, there may be some involvement in capacity connection and deliverability.
Locational Considerations	City of Toronto	Has the IESO evaluated the effect on electricity costs if resources are required to incorporate the risk of nodal transmission constraints before bidding?	The IESO has evaluated and published a study stating the benefits and cost saving of procuring via a capacity auction. The effect of nodal transmission constraints is a risk that the participant may need to review depending on their specific location. The participant would capture this risk in their offer. Overall, when the ICA receives this offer along with other participant's offers, the ICA would clear the cost effective resources. Thereby, achieving the economic efficient outcome.
General	City of Toronto	Has the IESO considered the challenges for demand side resources to meet must offer requirements? (Slide 18)	Potential exemptions and resource-specific considerations, including those that may be applicable to certain demand-side resources will be explored and inform any preliminary decision regarding the application of a must offer requirement in the ICA.

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