

Market Renewal – Incremental Capacity Auction

June 2018: Response to Stakeholder Feedback

The IESO has invited stakeholders to provide comments and feedback on a wide range of design options and preliminary decisions associated with the Incremental Capacity Auction. In June 2018, the IESO received feedback from APPrO as well as Power Advisory LLC and Compass Renewable Energy Consulting Inc. on behalf of the Distributed Energy Resources Advisory Committee (DER AC). This feedback has been posted on the IESO stakeholder webpage.

Note on Feedback Summary

The IESO appreciates 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 decisions. 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.

Stakeholder comments and IESO responses

Design Element	Stakeholder	Feedback	IESO Response
Resource Eligibility	DER AC	The IESO has stated that coal-fired generation, contracted and rate regulated generation would be ineligible to participate in ICAs, and that energy efficiency would likewise be ineligible to participate in ICAs (at least for the first few ICAs). While the DER AC agrees with this preliminary decision, we recommend that IESO	The IESO acknowledges that Energy Efficiency has been eligible to participate in some U.S. capacity markets and will explore its inclusion into the ICA as a future enhancement to the auction.

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		continue to evaluate options for the inclusion of energy efficiency in ICAs, consistent with other jurisdictions (i.e., PJM, ISO-NE). We believe that there is enough evidence from these markets that energy efficiency can be incorporated and relied on.	
Resource Eligibility	DER AC	With respect to smaller-scale resources, we recommend that the IESO consider two approaches in parallel: 1) Lowering the participation threshold from 1 MW to 100 kW (consistent with approach taken in other jurisdictions, such as ISO-NE, NYISO, PJM, CAISO, MISO, SPP); and 2) Continuing to permit aggregation of distribution-connected resources in a manor that is similar to the current DR Auction.	<p>The 1 MW participation threshold is an initiative under consideration by the IESO, but is out-of-scope for the Market Renewal Project (MRP).</p> <p>Aggregation rules differ for DERs and DR resources, please review response below for more details.</p>
Locational Considerations	DER AC	The IESO is considering introducing two or more capacity zones for the ICA. Although the IESO has not yet outlined their approach with respect to the number and configuration of new capacity zones, we recommend that the IESO maintain the current ten electrical zones for DER aggregation: 1) Larger capacity zones may pose operational challenges for the IESO with respect to the dispatch of aggregated DERs (e.g., modelling and visibility of DERs which are operating across a zone, etc.); 2) Smaller zones (or nodal aggregation) will reduce the benefits of DER aggregation.	<p>The IESO will consider the pre-existing ten electrical zones as a starting point when establishing capacity zones. In ICA detailed design, pre-existing zone boundaries will be reviewed and any necessary modification to refine the boundaries will be determined.</p> <p>It is important to note that capacity zones do not necessarily need to align with DR aggregation zones, which are established for modelling of aggregated DR resources.</p>

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			<p>Consistent with current Market Rules, generators participating in the ICA are permitted to aggregate as long as they are all connected to the IESO-controlled grid at a single connection point. Therefore, the concept of an aggregation zone is not applicable to a DER.</p>
Resource Eligibility	DER AC	<p>The DER AC recommends that the IESO provide reasonable options for behind-the-meter resources (i.e., demand-side participation). More specifically, energy storage resources should have the option to participate either as a DR resource or generation resource.</p>	<p>The auction design will consider alignment with trends in DERs and promote competition to allow a broad range of resource types that have the ability to provide capacity to participate. However, the current design requires participants in the ICA to be market participants (and therefore connected in front of the meter).</p>
Resource Eligibility	DER AC	<p>While the IESO has stated that contracted resources are not eligible to participate in ICAs, the DER AC asks that the IESO consider the potential for expansions or upgrades to existing contracted assets (e.g., the addition of energy storage to FIT contracted projects, etc.), particularly with respect to an aggregation model</p>	<p>Merchant capacity from contracted facilities will be eligible to participate in the auction, subject to specific conditions</p> <ul style="list-style-type: none"> • Must be able to demonstrate that both contract and ICA capacity is available simultaneously • There will be requirements to ensure that any energy resulting from an uprate is not being compensated under the existing contract

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			Any related consents or amendments under existing contracts would need to be addressed separately with IESO contract management and would be subject to the relevant terms and conditions of the existing contract.
Qualified Capacity	DER AC	The IESO’s approach to qualify capacity for the ICA needs to consider distribution-connected resources and energy limited resources, such as energy storage. The DER AC notes that per the February 2018 ruling of the FERC, the applicable ISOs/RTOs must support the participation of energy storage facilities at their full physical and operating capabilities. We strongly encourage the IESO to similarly adopt this approach for the appropriate inclusion and consideration of energy storage within the IESO administered markets.	<p>IESO will consider the energy limited aspect of the resource when determining their Qualified Capacity. Specifically for storage, the Capacity Qualification process will take into account the facility’s physical and operating capabilities.</p> <p>The IESO has established an Energy Storage Advisory Group to support the IESO in evolving policy, rules, processes and tools to better enable the integration of storage resources.</p>
Qualified Capacity	DER AC	The DER AC recommends that the IESO enhance coordination, and provide clear instructions to local distribution companies (LDCs) with respect to capacity availability and deliverability assessments. DERs will need to be assessed for connection capability and resources deliverability at the distribution-level, which will require additional inputs from LDCs prior to the auction. Participants require this information for the consideration of capacity qualification, as	In August, 2018, the IESO held an engagement webinar with LDCs to discuss ICA high level design issues including distribution connections and the concept of deliverability. Initial feedback from LDCs has been received and will be reviewed by the IESO.

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		well as for determining project economics and feasibility.	
Length of Forward Period	DER AC	<p>The IESO is currently proposing a 3.5 year forward period. Many DERs can be developed within a shorter timeframe, as evidenced by the IESO's DR Auctions. Resources that participate behind-the-meter, such as energy storage and DR, must coordinate with load customers. Lengthy forward periods are not advantageous as contractual relationships with customers must be maintained for a longer timeframe, adding additional complexity in the years leading up to the commitment period. Longer forward periods may be acceptable for DERs if there is an ongoing ability to participate in rebalancing auctions, provided there is a coordinated transition to ICAs for resources participating in annual DR Auctions. In this regard, we agree with the IESO's proposal for shorter forward periods in the early years of ICA implementation. The DER AC also agrees with the IESO's preliminary decision to conduct the base auction at the end of the calendar year, which is consistent with the IESO's current DR Auction design.</p>	The ICA design will include rebalancing auctions, which will also provide opportunities for shorter lead-time resources to participate.
Commitment Periods	DER AC	Multi-year commitments should be available for certain resources, including DERs, particularly for new resources and expansions of existing facilities. Treatment should be consistent across	The IESO is currently reviewing the four features of Multi-year commitments as part of the high level design work, namely, availability, length, eligibility

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		<p>different technology and resource types. Therefore, assuming multi-year commitments are available, all resource types should be eligible to receive multi-year commitments. Resources should also be permitted to select length of a multi-year commitment (i.e., if the maximum length of a multi-year commitment is 7 years, then a resource should be able to select between 1 and 7 years) which is similar to the rules adopted by ISO-NE.</p>	<p>and price formation.</p>
Rebalancing Auctions	DER AC	<p>The DER AC is generally supportive of the approach to implement one or more rebalancing auctions within the forward period. If there is a 3.5 year forward period, the DER AC would recommend at least 3 rebalancing auctions. The rebalancing auctions provide an opportunity for resources with shorter development timeframe to contribute to meeting resource adequacy requirements. The last rebalancing auction should take place as close as possible to the beginning of the commitment period.</p>	<p>The IESO agrees that one the benefits of rebalancing auctions are they provide an opportunity for shorter lead-time resources to participate in the ICA. The IESO has proposed two rebalancing auctions; balancing the benefits of more frequent auctions against the costs and complexity of administering additional auctions on both participants and the IESO.</p>
Target Capacity	DER AC	<p>The IESO needs to ensure that there is sufficient planning transparency and regulatory oversight with respect to determining target capacity to ensure investor confidence in ICAs. We note that there are certain complexities with respect to forecasting capacity requirements given uptake of DERs, many of which are not participating in the IAM and may be participating as a behind-</p>	<p>The IESO recognizes the need and value in transparency with respect to determining target capacity to provide investors with sufficient visibility of market opportunities to facilitate efficient participation in the ICA.</p> <p>The IESO agrees that stakeholders need to</p>

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		the-meter resource, leading to resource forecasting uncertainty. Therefore, it is essential for the IESO to work with stakeholder and LDCs to ensure accuracy and robustness of IESO forecasts.	have confidence in the inputs and assumptions used to arrive at the Target Capacity.
Net Cost of New Entry	DER AC	The DER AC recommends that the IESO provide further consideration for the "net" part of Net CONE, which may not be accessible for all DERs. For example, in today's DR Auction mechanism, hourly demand response resources are not compensated for energy and are not permitted to provide other ancillary services (such as Operating Reserve).	Net CONE will be established by a third-party through consultation with stakeholders. This process will consider what revenues are available to the type of resource associated with the basis for the reference price.
Resource Obligations within Forward Period	DER AC	For distribution-connected resources, the security requirements should be consistent with the current DR Auction.	The security requirement amounts will be determined as part of detailed design.
Resource Obligations within Forward Period	DER AC	The DER AC notes that aggregation is essential for DERs to meet must offer requirements as it helps reduce the administrative burden for smaller-scale resources. The DER AC agrees with approach that is consistent with DR Auction (e.g., Pay for Availability), however the DER AC could also support an approach that considers average assessment rather than an assessment within each hour. Capacity check tests should be planned in such a way as to minimize disruption to load customers and should occur during the commitment period. The IESO may not need to	Performance assessment will generally be based on an average of the must-offer hours and amount, and in line with the methodology used to qualify the resources. Certain resources, however, may be assessed on an hourly basis.

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		perform checks for resources that have proved capability or history of good performance.	
Cost Recovery	DER AC	As it pertains to value to customers and value to distribution systems, the DER AC is very interested in cost recovery mechanisms for the ICA. Cost recovery approaches and methodologies will impact customer behaviour and participation in market mechanisms. Therefore, the DER AC recommends that cost recovery mechanisms continue to incent consumers to reduce consumption during peak periods (i.e., similar to the Industrial Conservation Incentive).	The IESO intends to use a cost recovery mechanism that will ensure incentives are aligned for loads to reduce consumption during peak system demand hours.
Governance	APPrO	Could the IESO please clarify if on slide 54 the IESO is referencing chapter 3 section 2.2.1.1? If so, in order to try and capture the examples listed on page 52, modifications to that section may be required to specifically incorporate language around "IESO determinations" as disputes that may arise under this section.	<p>Slide 54 of the June 14, 2018 presentation is referencing the existing dispute resolution process provided for in Chapter 3 of the Market Rules (including section 2.2.1.1) as well as the applicable market manual.</p> <p>Slides 54 through 58 are intended to summarize existing processes and mechanisms.</p> <p>The existing dispute resolution process in the market rules is in-scope for the Governance and Decision-Making Advisory Group that was appointed by the IESO Board in August 2018. This</p>

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			feedback has been referred to the Advisory Group.
Governance	APPPrO	Even if chapter 3 could be amended in a way to incorporate "IESO determinations" the existing process falls short on OEB appeal rights, which slide 57 speaks to. In APPPrO's read of section 36(1) of the Electricity Act, it seems that an appeal (from one of the examples listed on slide 52) would not be permitted based on the narrow conditions a participant can appeal under this section 36(1). This section seems to apply mainly to orders made by the IESO likely when a participant has been found in breach of a market rule. Therefore, the current OEB appeal process would not be sufficient for appeals arising from the ICA (and more specifically those design elements listed on slide 52).	<p>The IESO agrees that existing appeal rights to the OEB are limited to those circumstances set out in the <i>Electricity Act</i>, as summarized on Slide 57 of the June 14, 2018 presentation.</p> <p>While the expansion of appeal rights to the OEB is not currently in scope for the Governance and Decision-Making Advisory Group, the IESO has agreed to incorporate this feedback into the Recommendations Report to the IESO Board, i.e. the IESO will provide this feedback to the Board, but will not make recommendations for procedural enhancements regarding existing appeal rights to the OEB at this time.</p> <p>The IESO is currently exploring other options to mitigate the ICA risks identified by stakeholders, such as crafting new remedies specific to the ICA. These options will be discussed at the Advisory Group and future ICA stakeholder sessions.</p>
Governance	APPPrO	Although the OEB appeal process does not seem workable with respect to ICA design elements,	As set out in Section 2.2.4 of Chapter 3 of the Market Rules, an award of an

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		<p>APPrO would like clarification on this section. Section 36(2) states that an appeal can be made under this section only after the use of the dispute resolution provisions under the market rules. However, per slide 55 arbitration is "binding". Can the IESO confirm that if a dispute went through chapter 3 arbitration a participant would still be able to avail itself of this section to appeal to the OEB? If this is the case, does this suggest an arbitrator's decision is 'non-binding'?</p>	<p>arbitrator is final and binding on the parties, subject to such rights of appeal as may be prescribed by applicable law (including the <i>Electricity Act</i>). Further, section 36(4) of the <i>Electricity Act</i> provides that an appeal to the OEB will not stay the application of an arbitration award, unless and until the OEB orders otherwise.</p>
Governance	APPrO	<p>On the point of the dispute resolution panel, it is in APPrO's opinion, the panel members should not be appointed by the IESO board. This should be one of the items to be reviewed during the broader governance/decision-making process review process. Each party should be able to submit their own list of (independent) arbitrators and the parties should mutually agree on one that is both independent and knowledgeable in the industry.</p>	<p>The existing dispute resolution process in the Market Rules, including the composition of the dispute resolution panel, is in-scope for the Governance and Decision-Making Advisory Group that was appointed by the IESO Board in August 2018. This feedback has been referred to the Advisory Group.</p>
Governance	APPrO	<p>Please note that in light of a broader review of governance/decision-making process, APPrO does not feel it is appropriate to try and shoe-horn the existing dispute resolution process on specific ICA design elements when the existing processes were not written with a capacity market in mind. As we are embarking on implementing a new (capacity) market and undertaking to review current decision-</p>	<p>The existing dispute resolution process in the Market Rules is in-scope for the Governance and Decision-Making Advisory Group that was appointed by the IESO Board in August 2018. This feedback has been referred to the Advisory Group.</p>

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		making/governance structures, APPrO feels all aspects of the ICA should be contemplated within this broader review, especially as the current process seems deficient.	
Governance	APPrO	APPrO's position is that where possible, dispute resolution should be a last resort. Despite what is stated on slide 54, dispute resolution is neither efficient nor cost effective if market participants are going to be disputing issues on a frequent basis (as may be the case if/when a capacity market is implemented). APPrO would suggest that in any new process, a step prior to arbitration is required to try and resolve disputes. The opportunity is here to create/evolve the processes that would be superior to those currently in place and in line with an evolving market.	<p>As set out on Slide 59 of the June 14, 2018 presentation, the IESO agrees that in the context of the ICA design, there is an opportunity to consider introducing additional mechanisms (which may be utilized prior to or in lieu of dispute resolution provisions) to facilitate, with participant input, review or reconsideration of certain IESO determinations in the course of administering the ICA.</p> <p>As further discussed during the September 12, 2018 stakeholder engagement session, the IESO proposes to incorporate such other mechanisms into the Market Rules and manuals and is seeking additional feedback from stakeholders in the identification of the mechanisms and applicability of such mechanisms. Any timely feedback received will be referred to the Advisory Group, which is currently exploring other options to mitigate the ICA risks identified by stakeholders, such as</p>

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			crafting new remedies specific to the ICA. These options will be discussed at the Advisory Group and future ICA stakeholder sessions.
Governance	APPrO	As stated in APPrO's past 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.	The IESO agrees with stakeholders that ensuring a well-functioning governance framework is in place will be a key aspect to the success of the ICA and, as this topic extends beyond the scope of the ICA, a broader sector wide engagement has been initiated. This feedback has been referred to the Advisory Group.
Governance	APPrO	APPrO's opinion is that the governance structure/decision-making process needs to be in place during or just prior to the publication of the HLDs. Absent good governance structure which is fair and equitable, it is not only difficult to provide meaningful input on the various design elements but could threaten the success of the ICA.	The IESO will provide a Report to the Board of Directors in December with recommendations arising from the Advisory Group on Governance and Decision-Making. This feedback has been referred to the Advisory Group, in terms of the timing for implementation of any procedural enhancements identified in the Report to the Board.
Governance	APPrO	In light of the newly launched IESO governance and decision-making stakeholder engagement, APPrO does not feel it is appropriate to try to apply the existing dispute resolution (DR) process onto a limited set of ICA design elements (per slide 52). In light of this broader governance review, all aspects of the ICA should be	As noted, broader discussions with respect to the existing dispute resolution process in the Market Rules are in-scope for the Governance and Decision-Making Advisory Group that was appointed by the IESO Board in August 2018. Any timely feedback received will be referred

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		<p>considered in that framework. Furthermore, as the governance and decision-making SE is looking at potential enhancements to the current dispute resolution process it would be inefficient to spend more time on trying to impose the current DR process on a set of ICA design elements when that DR process is currently subject to change.</p>	<p>to the Advisory Group, which is currently exploring other options to mitigate the ICA risks identified by stakeholders, such as crafting new remedies specific to the ICA. These options will be discussed at the Advisory Group and future ICA stakeholder sessions.</p> <p>Specifically, the IESO is considering and seeking stakeholder input with respect to other mechanisms that may be incorporated into the ICA design to facilitate, with participant input, review or reconsideration of certain IESO determinations in the course of administering the ICA. In particular, the IESO would appreciate additional stakeholder feedback with respect to which IESO determinations in the administration of the ICA may benefit from structured opportunity for review of decisions prior to elevating to dispute resolution provisions.</p>

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