

Market Renewal

IESO Response to Stakeholder Feedback – April 19, 2016

The IESO held the first stakeholder meeting for the Market Renewal Engagement on April 19th. At this session, the IESO sought feedback on various elements of the engagement including the proposed Work Plan, priorities and objectives and how best to structure the engagement going forward. Feedback has been grouped thematically along with the IESO's response below.

IESO received feedback from the following stakeholders:

Association of Power Producers of Ontario (APPrO)

Brookfield Renewable Energy Group

Market Surveillance Panel (MSP)

NextEra

Ontario Power Generation (OPG)

Ontario Society of Professional Engineers

Powerful Solutions

Rodan Energy Solutions

Suncor

IESO Responses are in *italics*

Proposed Work Plan

IESO should not neglect nor delay the design and implementation of its capacity market. Unforeseen contingencies and other capacity shortfall could trigger the need for significant capacity earlier than expected. Brookfield urges IESO to prioritize the design of capacity market and trades in the Market Renewal process. (Brookfield, Rodan)

While the Work Plan proposes single-schedule pricing as the first foundational step, the IESO agrees a capacity market is an important priority and will proceed with the capacity work stream in parallel.

For single-schedule pricing, if existing pricing and dispatch models were to be overhauled, IESO should be cognizant of its potential impact on market participants who invested based on an expectation of a much different market environment. (Brookfield)

Impacts to market participants and contract counterparties will be a key consideration in the analysis for the Work Plan and in the development of the design for the initiatives.

IESO should continue to harmonize rules with other markets and avoid isolated and potentially discriminatory rule-makings that are inconsistent with neighbour markets. [These actions] can cause seams issues and reduce confidence in Ontario's commitment to reciprocity.

Optimization of interties should be a first priority for IESO. (Brookfield)

Better alignment with other jurisdictions is a key benefit that will be included the analysis. In addition, the IESO has noted that one of the goals of this renewal is to minimize the need for out-of-market/administrative interventions.

Other Initiatives

The IESO should explore ancillary service procurement in this initiative. IESO should consider using transparent, efficient, and competitive markets to procure its ancillary services. (Brookfield)

Co-optimized energy, reserve and frequency regulation markets are common design features of electricity markets. The IESO is issuing an RFI related to frequency regulation to better understand the availability and market potential of this service beyond the traditional provider base. The findings of the RFI and additional further study may result in the inclusion of such a competitive regulation market within the Market Renewal initiative.

The IESO should consider the valuation of green attributes as an area of focus. Green attributes such as renewable energy certificates are currently traded in other markets but remain unleveraged in Ontario. Green attributes would allow Ontario consider monetizing its green attributes in neighbouring markets. (Brookfield)

There is an opportunity for Ontario generators and consumers to benefit from the export sale of power to the US. Clean electricity should command a premium price considering that the purchaser would otherwise need to invest significant capital to retrofit or replace existing generation. The economic impact for Ontario would be an increase in employment in the electricity sector and the benefit of export sales could be used to reduce power costs for all consumers in the province. (Powerful Solutions)

The IESO believes that competitive trade between markets should establish the value of energy and capacity-related products. The Market Renewal initiative will examine establishing an enduring approach to trading capacity with our neighbours. Issues such as environmental attributes will be examined through this work stream.

Competitive supply of electricity should begin at the generation contract process and include cost, predicted reliability, capacity, energy, emissions and operating flexibility. The contracts should be performance-based, with predicted reliability measured against actual performance. The IESO should evaluate the impact of forced outages and deratings on the market and consider adoption of a quality management approach for generators to minimize these costs, similar to what is done in the manufacturing sector. (Powerful Solutions)

The IESO believes an incremental capacity auction can be an effective mechanism to meet system adequacy needs in a transparent, competitive and flexible manner. While a final design has not been established, most capacity markets include some form of qualification process where the impacts of outages, de-rates and other factors can be evaluated and individual market participants are incentivized to maximize their operational capability.

The IESO proposes to create a Day Ahead Market which creates the possibility that industrial load may have to schedule load. This would involve significant incremental resources without commensurate benefit for most industrial customers. A clear alternative be developed to load scheduling within the MRI. (Suncor)

The IESO will review and consult on the participation of consumers when it comes to more detailed discussions for a Day-Ahead Market design.

Contracts

The IESO should actively and immediately engage market participants to arrive at a mutually acceptable solution so that contract holders are kept whole and the terms of the contracts are respected. Further, the IESO's planned cost-benefit analysis should cover the impact on contract holders. (Brookfield) (Suncor)

The IESO should have one on one discussions with contract holders on impacts associated with the proposed changes. (NextEra)

The IESO recognizes the need to consider market participant implementation costs as well the longer term financial impacts of the proposed market design changes. The IESO will work closely with contract counterparties and regulated market participants, including one-on-one meetings, to understand and consider these impacts.

Governance

The IESO should consider the question of governance seriously in this initiative (Brookfield).

The practice outside of Ontario is to have market rules reviewed by independent agencies to perform this important check and balance. The credibility of the IESO's market renewal process would be greatly enhanced if it were to include a role for independent review. The IESO could strongly enhance the credibility of this initiative if it addressed governance challenges in Ontario (APPrO)

The IESO agrees that this is a valuable conversation to undertake with the sector as a whole. However, it is imperative to first examine and develop the changes to Ontario's market design to better understand the impacts on governance, if any.

Cost Benefit Analysis

Stakeholders should be consulted before analysis begins to ensure meaningful stakeholder participation. (Brookfield)

The IESO should publish any high level analysis already prepared, before the Work Plan is launched, for stakeholders to review, comment and become committed to the project. (OPG)

Are our current markets efficient? It is important for the IESO to prepare meaningful research and data on the costs and benefits of a range of efficiency enhancements so that the merits of various options can be considered. (APPrO)

The IESO values the input of stakeholders in the assessment of the costs and benefits of the components within the Market Renewal work plan. Discussion on the Benefits Case approach and supporting analysis will form a large part of this stakeholder engagement process.

One of the largest causes of inefficient market outcomes are out-of-market decisions of system operators. This occurs when system operators take administrative actions as opposed to allowing market prices to rise, or governments intervene to direct outcomes which support particular policies or agendas. This needs to be acknowledged in any serious attempt at renewal.

A goal of Market Renewal is to minimize out of market decisions as much as possible. In addition, the IESO will look to benefit from the industry-wide discussion led by the Federal Energy Regulatory Commission on pricing of energy and ancillary services in an effort to identify best practices for addressing the impact of operator-initiated actions.

Engagement

The scope and potential impact of the Market Renewal initiative is such that the full spectrum of interests should be represented, including those of consumers who ultimately bear the cost of market design deficiencies. The IESO should structure its approach to this initiative in a way that promotes and facilitates such broad participation. (MSP)

The IESO agrees on the importance of ensuring broad representation and participation in the engagement. To that end, the IESO will provide targeted outreach to stakeholder groups who may not be active participants in the formal engagement. There will also be an opportunity to involve targeted stakeholder groups in a Working Group structure.

The IESO should consider an interactive working session with stakeholders to review ‘lessons learned’ from previous market development initiatives which were not implemented and gain the electricity sector’s views on the perceived barriers to change and strategies to overcome these. (OPG)

The IESO welcomes feedback from market participants and stakeholders on where lessons can be learned from past market development initiatives. It is expected that this consultation on the work plan and accompanying Benefits Case is the right forum for stakeholders to provide such feedback.

It may be beneficial to create a small dedicated group to focus on the details with input from the broad stakeholder community at periodic intervals. Working Group can assist in the design of the proposed initiatives and the associated analysis. Representatives would be expected to make a time and resource commitment and be actively engaged. (OPG)

The full panoply of IESO stakeholder engagement processes should be utilized, including a standing committee with specific working groups. The specific structure should be clearly understood and approved by market participants before engagement commences. (APPrO)

IESO believes a Working Group structure is warranted given the scope of the engagement. The IESO will propose further details in this area at the next meeting.

Timeline

The IESO should accelerate the timeframe for this engagement to facilitate the identification of inter-dependencies or inter-relationships between different reform options, ensure continuity and sustain meaningful participation by stakeholders. A shorter timeframe will also allow for more timely realization of anticipated benefits. (MSP)

The IESO should proceed with a “big bang” rather than a step-wise approach to market renewal. Work on both the energy market corrections and on the initiation of a capacity

market/auction should proceed apace and coincident implementation should be carefully considered at the earliest practical opportunity. (Rodan)

Given the scope of the proposed work plan, a 'big bang' approach would likely be challenging from resource and IT perspective and potentially delay the projects significantly. The IESO has proposed a set of prioritized initiatives that will proceed in parallel and ensure clear linkages between the projects are maintained. The IESO agrees that where coordinated design efforts are necessary and where needs are present, there should be no unnecessary delays to commencing work on the various work streams. An updated work plan, based on stakeholder feedback, will be presented at the next meeting.

Given the other work that the IESO and stakeholders are participating in such as the LRP II and the review of the LTEP, the IESO should consider internal and external resource constraints when setting timelines for the Market Renewal work (NextEra)

The Work Plan will reflect a realistic implementation timeline that balances a desire to see the benefits of market renewal realized while respecting stakeholder and IESO resource constraints.

Other Comments

The IESO should ensure that market dispatching orders support the government's emission reduction goals. (OPSE)

Market Renewal should include changes associated with Cap and Trade. (Suncor)

The IESO will ensure that the Market Renewal work is informed by any relevant and applicable changes resulting from the Government's Climate Change Action Plan. .

The IESO should ensure that new market mechanisms are not barriers to the introduction of innovative technologies that are alternatives to conventional supply resources. (OPSE)

The IESO agrees with this statement and is focused on sending clear signals of system need to ensure they are met by the most cost-effective set of technically capable resources, regardless of technology type.

[Electricity] rates should be established that enable businesses and industrial consumers to thrive and to incent measures that will reduce the cost of operation of the electricity system everyday not just the peak days. (Powerful Solutions)

In the Market operations context, the IESO does not have rate-setting authorities or responsibilities. This is the purview of the Ontario Energy Board.