

Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:		MR-00441-R01					
Subject:	Changes	to Capacity Auction Participation					
Title:	Capacity Auction, June 2020						
Nature of Proposal:							
Chapter:	7			Appendix:	N/A		
Sections:	3.4, 5.5 & 18						
Sub-sections proposed for amending:			N/A				

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date		
1.0	Submitted for Technical	January 28, 2020		
2.0	Publish for Stakeholder F	February 5, 2020		
3.0	Submitted for Technical	February 25, 2020		
4.0	Recommended by Techni IESO Board Approval	March 3, 2020		
5.0	Approved by IESO Board		March 23, 2020	
Approved Amendment Publication Date:		March 26, 2020		
Approved Amendment Effective Date:		May 4, 2020		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the IESO-administered markets if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the IESO-administered markets.

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Summary

The IESO proposes to amend the market rules to evolve the Demand Response Auction (DRA), and the Transitional Capacity Auction (TCA), into the Capacity Auction (CA) which will be a mechanism to address capacity needs in Ontario. The Capacity Auction will enable existing and available resources to participate, including system backed imports and storage, which will compete alongside demand response and non-committed generators to meet Ontario's capacity needs.

The amendment proposal has been discussed as part of the Capacity Auction stakeholder engagement initiative prior to consideration by the Technical Panel.

Further information on the Capacity Auction stakeholder engagement can be found here along with the June 2020 Capacity Auction - Design Document which includes the key decisions and rationale supporting these market rule amendments.

Background

Throughout Chapter 7, defined terms will be updated to reflect the new definitions which have been added to Chapter 11 which related specifically to the CA. These new definitions replace definitions which were specific to the DRA or the TCA.

In addition, amendments are proposed to specify the auction parameters related to capacity import resources that will be included in the pre-auction report. The IESO has also continued to ease restrictions on capacity obligation transfers, specifically transfers of capacity obligations between zones.

Lastly, the IESO has proposed a new section to ensure that the market rules and market manuals which are in effect at the time of the auction will remain in effect until the end of the commitment period.

Discussion

Chapter 2

2.1.1.9 – The term demand response market participant is no longer required and has been removed. All participants who receive a capacity obligation through a CA will become a capacity market participant. All former demand response market participants will be converted to capacity market participants.

Chapter 7

Defined terms updated throughout the chapter to align with the amendments in MR-00441-R00.

Transitional Market Rules – Versioning of the Capacity Auction Phases

Section 18.1A (New) – The IESO has undertaken a phased approach to the development of the CA which requires frequent changes to the market rules and market manuals. This section has been added to specify that the market rules and applicable market manuals which are in place at the time of a CA will remain in effect until the end of the commitment period. The provisions are intended to ensure consistency for CA participants from the date of the auction through until the end of the commitment period. If market rule amendments are made after the date of a CA and pertain to the capacity auction or the satisfaction of capacity obligations, those amendments will only affect a future CA. This does not limit the IESO's ability to implement an urgent amendment as per the criteria for determining whether an amendment is urgent.

For the purposes of the December 2019 DRA, the market rules and applicable market manuals in effect at the commencement of the commitment period shall remain in effect until the end of the associated commitment period. Therefore the IESO will publish these documents applicable to the December 2019 DRA in the proposed archive described below.

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

In order to ensure that capacity market participants can access the required documents related to their capacity obligation, the IESO proposes to maintain and publish an archive of the market rules and applicable market manuals for a period of 2 years after the end of the associated commitment period. At the same time, this approach will allow the IESO to make changes for future CAs in coordination with stakeholders.

Other Changes to Section 18:

Section 18.5.5 & 18.5.6 (New) – In addition to the information specified in section 18.5 that is published in the pre-auction report, the IESO will publish maximum values of auction capacity that can be provided by capacity import resources. This includes the total auction capacity that can be secured from all capacity import resources and the maximum auction capacity allowed from all capacity import resources at each intertie.

Section 18.9 – The IESO proposes to remove restrictions on transferring capacity obligations between zones where the transfer does not violate any constraints defined in the pre-auction report. Furthermore, new section 18.9.1A specifies that where there is a transfer between zones and there is a difference between the two zonal CA clearing prices, the obligation will always be settled based upon the price at which the obligation initially cleared the CA.

Specific changes to the market rules are listed below. There are three additional rule amendment packages that form the entirety of the proposed rule changes for the CA.

PART 4 – PROPOSED AMENDMENT

Chapter 2

2. Classes of Market Participants

2.1.1 The following classes of persons may apply for authorization to participate in the *IESO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IESO-controlled grid*:

2.1.1.1	generators;
2.1.1.2	distributors;
2.1.1.3	wholesale sellers;
2.1.1.4	wholesale consumers;
2.1.1.5	retailers;
2.1.1.6	transmitters;
2.1.1.7	financial market participants;

Page 4 of 14 IMO-FORM-1087 v.11.0 REV-05-09 2.1.1.8 [Intentionally left blank – section deleted]
2.1.1.9 demand response market participants; [Intentionally left blank – section deleted]
2.1.1.10 [Intentionally left blank – section deleted]
2.1.1.11 capacity market participants; and
2.1.1.12 capacity auction participants.

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Chapter 7

3.4 The Form of Dispatch Data

3.4.1 *Dispatch data* shall relate to a specified *dispatch hour* of the *dispatch day* and to a specified *registered facility*, shall comply with the applicable provisions of this section and sections 3.5 to 3.9 and shall take one of the following forms:

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3.4.1.6 for a <u>capacitydemand response</u> market participant with an hourly demand response resource, a <u>demand response energy biddemand</u> response energy bid to reduce its <u>energy</u>energy consumption during a specified availability window and obligation period in accordance with the applicable market manual market manual.

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5.5 Release of Pre-dispatch Schedule Information

- 5.5.2 For each registered facility that is a boundary entity, a dispatchable load facility, a dispatchable generation facility or an hourly demand response resource resource in respect of which a valid bid or offer for at least one dispatch hour of the applicable dispatch day has been submitted, the IESO shall release the following information only to the registered market participant for that registered facility:
 - 5.5.2.1 the pre-dispatch schedule for that registered facility;
 - 5.5.2.2 the projected market schedule for that registered facility; and
 - 5.5.2.3 [Intentionally left blank]

5.5.2.4 any requirement of that *registered facility* to submit an *offer* or *bid* under a *reliability must-run contract* and the expected scheduled use of that *registered facility* under *contracted ancillary service* contracts.

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18. Capacity Auctions

18.1 Purpose of Capacity Auctions

- 18.1.1 The *capacity auctions* will acquire *auction capacity* through a competitive auction.
- 18.1.2 The *IESO* shall specify and *publish* a target capacity amount to be acquired in each *capacity auction*, as specified in the applicable *market manual*.

18.1A Capacity Auction – Transitional Market Rules

- 18.1A.1 For the purposes of participation in a *capacity auction*, *market rules* and applicable *market manuals* that specifically concern *capacity auction* participation, the satisfaction of *capacity obligations*, or the performance of requirements directly related to that participation, shall remain in effect from the date of the *capacity auction* until the end of its associated *commitment period*.
 - 18.1A.1.1 Notwithstanding sections 18.1A.1, in the case where a *capacity*auction is a demand response auction, the market rules and applicable market manuals that shall remain in effect until the end of the associated commitment period, in accordance with 18.1.A.1, shall be the market rules and applicable market manuals in effect at the start of that demand response auction's associated commitment period.
- 18.1A.2 Changes to the *market rules* and applicable *market manuals* that specifically concern *capacity auction* participation, the satisfaction of *capacity obligations*, or the performance of requirements directly related to that participation, and which are brought into effect between the date of a given *capacity auction* and the end of its associated *commitment period*, shall be applicable to subsequent *capacity auctions* and their associated *commitment periods*.
- 18.1A.3 Notwithstanding sections 18.1A.1 and 18.1A.2, nothing in this section 18.1A shall limit the effectiveness of an *urgent amendment*.
- 18.1A.5 The *IESO* shall maintain a *published* archive of *market rules* and applicable *market manuals* in effect on the date of a *capacity auction* for a period of 2 years following the end of its associated *commitment period*.

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18.2 Participation in Capacity Auctions

- 18.2.1 No person may participate in a *capacity auction* nor receive a *capacity obligation* unless that person has:
 - 18.2.1.1 been authorized by the *IESO* as a *capacity auction participant* in accordance with section 3 of Chapter 2 and in accordance with the applicable *market manual*;
 - 18.2.1.2 submitted to the and received IESO enrolled approval for a qualified capacity, using forms and procedures as may be established by the IESO in the applicable market manual; and
 - 18.2.1.3 no less than five *business days* prior to the date on which a *capacity auction* is to be conducted, provided to the *IESO* a *capacity auction deposit*, in one or both of the forms set forth in section 18.4.
- 18.2.2 The following provisions of the *market rules* shall not apply to a *capacity auction* participant that is authorized by the *IESO* to participate only in a *capacity auction* withas an *hourly demand response resource*:
 - 18.2.2.1 Chapters 4, 5, and 6;
 - 18.2.2.2 Chapter 7 other than this section 18; and
 - 18.2.2.3 Chapters 8 and 10.
- 18.2.3 A *capacity auction participant* who obtains a *capacity obligation* shall apply to become authorized by the *IESO* as a *capacity market participant* in accordance with section 3 of Chapter 2.

18.3 Calculation of Capacity Auction Deposits

- 18.3.1 Upon receipt of <u>enrolled</u> a <u>qualified</u> capacity in accordance with section 18.2.1.2, the *IESO* shall determine for each capacity auction participant, a capacity auction deposit for a capacity auction as specified in the applicable market manual.
- The *IESO* shall review the *capacity auction deposit* of a *capacity transferee* upon receipt of a request for a *capacity obligation* transfer in accordance with section 18.9.1. As a result of a transfer request, the *IESO* may increase the *capacity auction deposit* of a *capacity transferee* and the *IESO* shall notify the *capacity transferee* of any such increase.
- 18.3.3 Where the amount of a *capacity auction deposit* provided by a *capacity auction participant* exceeds the amount required by the *IESO*, the *IESO* shall return the

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excess amount to the capacity auction participant within five business days of such a request from the *capacity auction participant*. Otherwise, that amount shall be held by the *IESO* and shall form part of that *capacity auction* participant's capacity auction deposit for its participation in a subsequent capacity auction.

Capacity Auction Deposits 18.4

- 18.4.1 A *capacity auction deposit* shall be in one or both of the following forms:
 - 18.4.1.1 an irrevocable commercial letter of credit provided by a bank named in a Schedule to the Bank Act, S.C. 1991, c. 46; or
 - 18.4.1.2 a cash deposit made with the *IESO* by or on behalf of the *capacity* auction participant.
- 18.4.2 Where all or part of a capacity auction deposit is in the form of a standby letter of credit, the following provisions shall apply:
 - 18.4.2.1 the letter of credit shall provide that it is issued subject to either The Uniform Customs and Practice for Documentary Credits, 1993 Revision, ICE Publication No. 500 or The International Standby Practices 1998;
 - 18.4.2.2 the IESO shall be named as beneficiary in the letter of credit, the letter of credit shall be irrevocable and partial draws on the letter of credit shall not be prohibited;
 - 18.4.2.3 the only condition on the ability of the IESO to draw on the letter of credit shall be the delivery of a certificate by an officer of the IESO that a specified amount is owing by the *capacity auction participant* to the *IESO* and that, in accordance with the provisions of the *market* rules, the IESO is entitled to payment of that specified amount as of the date of delivery of the certificate;
 - 18.4.2.4 the letter of credit shall either provide for automatic renewal (unless the issuing bank advises the *IESO* at least thirty days prior to the renewal date that the letter of credit will not be renewed) or be for a term of at least one (1) year. Where the *IESO* is advised that a letter of credit is not to be renewed or the term of the letter of credit is to expire, the *capacity auction participant* shall arrange for and deliver additional *capacity auction deposits* if the *capacity auction participant* intends to continue to participate in a *capacity auction*. If such additional *capacity auction deposits* are not received by the *IESO* ten (10) business days before the expiry of a letter of credit, the IESO shall be entitled as of that time to payment of the full face amount of the

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- letter of credit which amount, once drawn by the *IESO*, shall be treated as a *capacity auction deposit* in the form of cash; and
- 18.4.2.5 by including a letter of credit as part of a *capacity auction deposit*, the *capacity auction participant* represents and warrants to the *IESO* that the issuance of the letter of credit is not prohibited in any other agreement, including without limitation, a negative pledge given by or in respect of the *capacity auction participant*.
- 18.4.3 Notwithstanding any other provision of these *market rules*, a person that applies for authorization to participate in the *capacity auction* and that has not applied for authorization to participate, or is not participating, in any other *IESO-administered market* shall not be required to comply with any requirements for authorization other than those set forth in sections 18.2.1.1 to 18.2.1.3.
- In the event a *capacity auction participant* has not satisfied the applicable eligibility requirements specified in sections 19.2, 19.3 or 19.6 of Chapter 7 and has not elected to buy-out the *capacity obligation* in accordance with section 4.7J.3 of Chapter 9, the *capacity auction participant* shall, at the *IESO's* sole discretion, forfeit its *capacity auction deposit*.

18.5 Transitional Capacity Auction Parameters

The *IESO* shall conduct *capacity auctions* at least on an annual basis to acquire *capacity* for a future one-year *commitment periods*. In each *capacity auction* the *IESO* shall acquire *auction capacity* for each *obligation period* as specified in the applicable *market manual*.

Demand Curve, Zonal Constraints and Pre-Auction Reports

- 18.5.2 The *IESO* shall, in accordance with the applicable *market manual*, *publish* a preauction report in advance of each-*transitional capacity auction*, including the following *transitional capacity auction* demand curve reference points:
 - 18.5.2.1 a target capacity in accordance with section 18.1.2;
 - 18.5.2.2 a transitional capacity auction reference price;
 - 18.5.2.3 a maximum and minimum-transitional capacity auction clearing price;
 - 18.5.2.4 [Intentionally left blank section deleted]
 - 18.5.2.5 a maximum *auction capacity* limit at the maximum-*transitional* capacity auction clearing price that a *transitional*-capacity auction shall clear; and

- 18.5.2.6 a maximum *auction capacity* limit that a *transitional*-capacity auction shall clear.
- 18.5.3 The *IESO* shall define *capacity auction zonal constraints* for each-*transitional capacity auction* and the *IESO* shall *publish*, in the pre-auction report, those requirements as specified in the applicable *market manual*.
- 18.5.4 The *IESO* shall specify and *publish* in the pre-auction report the following timelines associated with a *capacity auction*:
 - 18.5.4.1 the deadline to submit the amount of <u>enrolled</u> *qualified* capacity the capacity auction participant is willing to provide pursuant to section 18.2.1.2;
 - 18.5.4.2 the deadline for a *capacity auction participant* to submit a *capacity auction deposit* in accordance with section 18.2.1.3;
 - 18.5.4.3 the dates in which a *capacity auction participant* may submit *transitional*-capacity auction offers for a capacity auction;
 - 18.5.4.4 the period over which the *IESO* shall conduct the *transitional* capacity *auction*; and
 - 18.5.4.5 the date of *transitional capacity auction* post-auction reporting in accondance with sections 18.8.1 and 18.8.2.
- 18.5.5 The *IESO* shall define the total *auction capacity* that may be provided by all *capacity import resources* in a *capacity auction* for each *obligation period*. The *IESO* shall *publish*, in the pre-auction report, these requirements as specified in the applicable *market manual*.
- 18.5.6 The *IESO* shall define the total *auction capacity* that may be provided by all *capacity import resources* on each applicable *intertie* in a *capacity auction* for each *obligation period*. The *IESO* shall *publish*, in the pre-auction report, these requirements as specified in the applicable *market manual*.

18.6 Capacity Auction Offers

- 18.6.1 A capacity auction offer:
 - 18.6.1.1 may be submitted or revised by the *capacity auction participant* on the dates specified in accordance with section 18.5.4 and the applicable *market manual*:
 - 18.6.1.2 shall only be applicable to the *obligation periods* for which a *capacity auction participant* has submitted a *capacity auction offer*, in accordance with the applicable *market manual*; and

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- 18.6.1.3 shall be time stamped by the *IESO* when received.
- 18.6.2 A *capacity auction offer* shall only be submitted in respect of a given *capacity auction* if:
 - 18.6.2.1 the *capacity auction participant* complies with the *capacity auction participant* requirements in section 18.2.1; and
 - 18.6.2.2 the *capacity auction participant* has not been disqualified from full or partial participation in the *capacity auction* pursuant to sections 19.4.8, 19.5.4, or 19.76.4, 19.9.4 or 19.11.4.
- 18.6.3 A *capacity auction offer* may include up to twenty *price-quantity* pairs for each *obligation period* and shall comply with the following:
 - 18.6.3.1 the *capacity auction offer* shall be for and applicable over an entire *obligation period* associated with a *capacity auction*;
 - 18.6.3.2 the *capacity auction offer price* in any *price-quantity pair* shall:
 - be expressed in dollars and whole cents per MW-day of *auction* capacity to be provided in each hour of the *availability window* throughout the *obligation period* associated with that transitional capacity auction;
 - be greater than or equal to \$0.00/MW-day;
 - not exceed the applicable maximum *transitional*-capacity auction clearing price; and
 - increase as the associated *capacity auction offer* quantity increases.
 - 18.6.3.3 the *capacity auction offer* quantity in any *price-quantity* pair shall be expressed in MW to not more than one decimal place and the total offered quantity shall not exceed the *enrolledqualified capacity* of the *capacity auction resource* determined through the submission of *auction capacity* that a *capacity auction participant* is willing to provide in accordance with section 18.2.1.2; and
 - 18.6.3.4 the *capacity auction offeroffer* shall indicate whether the *capacity auction participant* is willing to clear a *capacity auction* with the full amount of *auction capacity* offered in a lamination or a partial amount of the *auction capacity* offered in a lamination, in accordance with the applicable *market manual*.

18.7 Transitional Capacity Auction Clearing Prices and Quantities

- 18.7.1 The *IESO* shall determine a *transitional-capacity auction* demand curve to be utilized for each *obligation period* in an auction year, based upon the *transitional capacity auction* parameters detailed in the pre-auction report pursuant to section 18.5 and in accordance with the applicable *market manual*.
- 18.7.2 The *IESO* shall, in each *transitional*-capacity auction, determine for each *obligation period* the *transitional*-capacity auction clearing price in accordance with the applicable *market manual*.
- 18.7.3 The *IESO* shall, in each *transitional* capacity auction, determine for each *obligation period* the capacity obligation for each capacity auction participant's and its resources capacity auction resource(s) in accordance with section 18.7.5 and the applicable market manual.
- 18.7.4 The IESO shall, for each *transitional capacity auction*, determine for each *obligation period* associated with the *transitional capacity auction*:
 - 18.7.4.1 the *transitional*-capacity auction clearing prices for each electrical zone identified in the pre-auction report; and
 - 18.7.4.2 the zonal <u>capacity obligation</u> capacity obligation for each capacity auction participant's <u>capacity auction resource(s)</u>,

in accordance with this section 18.7

18.7.5 If two or more *capacity auction participants* submit a *capacity auction offer* at the same price, for the last available quantity, the *capacity auction offer* with the earlier time stamp shall be selected as the successful *capacity auction offer*, in accordance with the applicable *market manual*.

18.8 Post-Auction Notification and Publication

- 18.8.1 The *IESO* shall, as soon as practicable following the conclusion of a *capacity auction*, *publish* the following in accordance with the applicable *market manual*:
 - 18.8.1.1 the *transitional*-capacity auction clearing price;
 - 18.8.1.2 the amount of *auction capacity* that has been acquired in each electrical zone:
 - 18.8.1.3 those *capacity auction participants* who received a *capacity obligation* and all respective *capacity obligations*; and
 - 18.8.1.4 the <u>enrolled</u> qualified <u>auction</u> capacity of each capacity auction participant.

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18.8.2 The *IESO* shall, following the conclusion of a *capacity auction*, issue post-auction reports to each *capacity auction participant* by the date specified in the preauction report, to detail the *capacity auction offers* that have cleared in the *capacity auction* and the associated *capacity obligations* for each *obligation period* in accordance with the applicable *market manual*.

18.9 Capacity Obligation Transfers

- 18.9.1 A *capacity transferor* may, subject to *IESO* approval and in accordance with the applicable *market manual*, request a transfer of all or a portion of its *capacity obligation* to a *capacity transferee* provided that the following criteria are met:
 - 18.9.1.1 the quantity to be transferred does not exceed the difference between the *capacity transferee's enrolled qualified capacity*, and its existing *capacity obligation* for the applicable *obligation period*;
 - 18.9.1.1.1 for the purposes of 18.9.1.1, the <u>enrolledqualified</u> capacity refers to the <u>enrolledqualified</u> capacity received by the <u>capacity transferee</u> in the <u>obligation period</u> for which the quantity is being transferred.
 - 18.9.1.2 the *capacity transferor* provides written confirmation to the *IESO* from the *capacity transferee* of its willingness to accept the transfer of a *capacity obligation* from the *capacity transferor*;
 - 18.9.1.3 the *capacity obligation* transfer shall consist of the same attributes (e.g. physical or virtual) and be of the same resource type, as detailed in the applicable *market manual*, as the *capacity transferor's capacity obligation*;
 - 18.9.1.4 the quantity to be transferred is in increments of 0.1MW, and the resulting *capacity obligations* for both the *capacity transferor* and *capacity transferee* following the transfer shall be 0 MW, or greater than or equal to 1 MW; and
 - 18.9.1.5 [Intentionally left blank section deleted] the *capacity obligation* to be transferred is within the same zone;
 - 18.9.1.6 [Intentionally left blank section deleted] if the capacity obligation was acquired through a transitional capacity auction, the capacity obligation may be transferred between zones where the transitional capacity auction clearing prices in the two respective zones are equal to the Ontario-wide transitional capacity auction clearing price;
 - 18.9.1.7 [Intentionally left blank section deleted] For the purposes of 18.9.1.6, the *capacity transferor* and the *capacity transferee* may be the same *capacity auction participant*;

- 18.9.1.8 capacity obligation transfers must not result in the violation of any constraint as defined in the pre-auction report receiving zone reaching a capacity auction zonal constraint.
- 18.9.1A Where the *capacity obligation* is transferred between zones, the *capacity* transferee shall be settled based upon the capacity auction clearing price received by the *capacity transferor* when the *capacity obligation* first cleared the *capacity* auction in accordance with the applicable market manual.
- 18.9.2 For each transfer request that satisfies the criteria in section 18.9.1, the *IESO* shall determine the *capacity transferee*'s revised *capacity auction deposit* and/or capacity prudential support obligation, as applicable, in accordance with section 18.3.2 and section 5B.3.3 of Chapter 2.
- 18.9.3 The capacity transferee shall provide the IESO, within five business days of receiving notification from the *IESO* or within such a longer period of time as may be agreed between the IESO and the capacity transferee, any additional capacity auction deposit and/or capacity prudential support obligation that may be required as a result of a transfer request.
- 18.9.4 After the revised capacity auction deposits and/or capacity prudential support obligations have been satisfied by the capacity transferee, the IESO shall notify the capacity transferor and capacity transferee of its approval or rejection, and the *IESO* shall *publish* updated post-auction reports pursuant to section 18.8.

PART 5 - IESO BOARD DECISION RATIONALE

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