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## Market Rule Amendment Proposal

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### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00439-R03		
Subject:	Transitional Capacity Auction		
Title:	Energy Market Participation		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	3, 7	Appendix:	
Sections:	Chapter 3 – 6.3, 6.3A, & 6.5, Chapter 7 - 3.4, 18.9, 19.4, 19.5, 19.7 (new)		
Sub-sections proposed for amending:			

### PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Stakeholder Review and Comment	May 15, 2019
2.0	Submitted for Technical Panel Review and Comment	June 18, 2019
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

### 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*.

#### Summary

The IESO proposes to amend the market rules to evolve the Demand Response Auction (DRA) into the Transitional Capacity Auction (TCA) to address capacity needs in Ontario until the Incremental Capacity Auction (ICA) has commenced in late 2022.

Over its four auctions, the DRA has proven successful in driving down capacity costs and increasing competition. Enhancing the IESO's approach to capacity auctions this year by opening participation to other resources is another step toward a more competitive electricity marketplace; it moves Ontario's electricity marketplace down the path of efficiency, competition, and transparency – the key principles of the market renewal efforts.

This proposal will be discussed as part of the Transitional Capacity Auction stakeholder engagement initiative before consideration by the Technical Panel.

Further information on the Transitional Capacity Auction stakeholder engagement is found [here](#).

#### Background

Capacity market participants with a capacity obligation will be required to deliver on their capacity obligation through participation in the energy market as an hourly demand resource, dispatchable load or non-committed generator. These resource types will be required to submit offers into the energy market (day-ahead and real-time) for every hour of the availability window.

#### Discussion

Minor changes have been proposed to Chapter 3 to reflect changes to defined terms and to show the shift from demand response programs to the Transitional Capacity Auction.

Significant changes have been proposed for Chapter 7. Defined terms have been updated to show the shift from demand response programs to the Transitional Capacity Auction. New sections have been added in Section 18.9 to further describe qualified capacity, and to provide more clarification on the transfer of auction capacity. Section 19.7 - Energy Market Participation for Capacity Generation Resources has been added. This section outlines the requirements for Market Participants with Capacity Generation Resources to participate in the energy market.

This market rule amendment proposal was first circulated to stakeholders and market participants who are participating in the Transitional Capacity Auction stakeholder engagement. In response to stakeholder feedback, this proposal contains a new section, 18.9.1.5C to allow a transfer of a capacity obligation between zones where the same capacity market participant is both the capacity transferor and the capacity transferee. Additionally, stakeholders noted an incorrect reference in sections 19.7.8 and 19.7.10 which has been corrected in this version.

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

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

**PART 4 – PROPOSED AMENDMENT****Chapter 3****6.3 Events of Default**

- 6.3.1 An event of default occurs if a market participant or the person that has provided prudential support, ~~demand response security, or demand response or capacity~~ prudential support in relation to the market participant:
- 6.3.1.1 does not make a payment in full required under the *market rules* when due;
  - 6.3.1.2 fails to provide payment in full of any amount claimed by the IESO under any prudential support, ~~demand response security, or demand response or capacity~~ prudential support;
  - 6.3.1.3 fails to provide and maintain prudential support, ~~demand response security, or demand response capacity~~ prudential support required to be supplied under the market rules within the time required;
- 6.3.2 A *market participant* shall notify the *IESO* immediately upon:
- 6.3.2.1 the occurrence of an *event of default* or any circumstance that may give rise to an *event of default* referred to in sections 6.3.1.4 to 6.3.1.11; or
  - 6.3.2.2 the appointment of a receiver or receiver and manager or person having a similar or analogous function under the laws of any relevant jurisdiction in respect of any property of the *market participant* or the *market participant's prudential support provider*, ~~demand response security, or demand response or capacity~~ prudential support provider.
- 6.3.3 Where a *market participant* or a person providing *prudential support*, ~~demand response security, or demand response or capacity~~ prudential support on behalf of that *market participant* commits an *event of default*, the IESO may:

- 6.3.3.1 issue to the *market participant* a *notice of intent to suspend* stating that the *market participant* will be suspended unless it remedies the *event of default* within 2 *business days* or such longer period as specified in the notice;
- 6.3.3.2 immediately draw upon part or all of the *market participant's prudential support*, ~~demand response security, or demand response~~ or capacity *prudential support* for either the amount of any money owing to the *IESO* under the *market rules* or where the *market participant's prudential support*, ~~demand response security, or demand response~~ or capacity *prudential support* is due to expire or terminate and has not been replaced as required under section 5.2.5, 5A.2.3 or 5B.2.4 of Chapter 2, the undrawn part of the *prudential support* ~~or demand response security~~ notwithstanding the provisions of section 5.7.2.5 of Chapter 2 until such time as the *market participant* has replaced its *prudential support*, ~~demand response security, or demand response~~ capacity *prudential support*; and

### 6.3A Suspension of a Market Participant

- 6.3A.2 The *IESO* shall *publish* the details of the *suspension order* and provide a copy of the *suspension order* to the *OEB* and the *transmitter, distributor and/or* other *market participant* to whose *facilities* the suspended *market participant* is connected.
- 6.3A.4 The *IESO* may do one or more of the following to give effect to a *suspension order*:
- 6.3A.4.1 reject any bid, offer, TR bid or TR offer submitted by the suspended *market participant*;
- 6.3A.4.2 set-off any amounts otherwise due to the *suspended market participant* against any amounts owed by the *suspended market participant* under the *market rules*;
- 6.3A.4.3 issue a disconnection order to the *transmitter, distributor and/or* other *market participant* to whose *facilities* the suspended *market participant's* *facilities* are connected and provide a copy to the *OEB*; or
- 6.3A.4.4 make such further order or issue such directions to the *suspended market participant* as the *IESO* determines appropriate.
- 6.4.2 The *IESO* shall *publish* the details of the *termination order* and provide a copy of the *termination order* to the *OEB* and to the *transmitter, distributor and/or*

other market participant to whose facilities the terminated market participant's facilities are connected.

- 6.4.3 When the *IESO* issues a *termination order*, it may at the same time, if it has not already done so, issue a *disconnection order* to the *transmitter, distributor and/or other market participant* to whose facilities the *terminated market participant's facilities* are connected and provide a copy to the *OEB*.

## 6.5 De-Registration of a Market Participant's Facilities

- 6.5.3 If the *IESO* deregisters some or all of a market participant's registered facilities, it may at the same time issue a disconnection order to the relevant transmitter, distributor and/or other market participant to whose facilities the market participant's facilities which is subject of the deregistration are connected and provide a copy to the *OEB*.

## Chapter 7

### 3.4 The Form of Dispatch Data

- 3.4.1.6 for a *demand response market participant* with an *hourly demand response* resource, a *demand response energy bid* to reduce its *energy* consumption during a specified *availability window* and *commitment obligation* period in accordance with the applicable *market manual*.

## 18.9 ~~Demand Response~~ Capacity Obligation Transfers

- 18.9.1 A *demand response 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 ~~*demand response capacity obligation*~~ to a *demand response 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 *demand response capacity* transferee's *qualified demand response capacity*, and its existing ~~*demand response capacity obligation*~~ for the applicable *commitment obligation* period;

18.9.1.1.1 for the purposes of 18.9.1.1, the *qualified capacity* refers to the *qualified capacity* received by the *capacity transferee* in the *obligation period* for which the quantity is being transferred.

- 18.9.1.2 the ~~demand response capacity~~ transferor provides written confirmation to the IESO from the ~~demand response capacity~~ transferee of its willingness to accept the transfer of a ~~demand response capacity~~ obligation from the ~~demand response 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 ~~demand response capacity~~ transferor's ~~demand response capacity~~ obligation; ~~and~~
- 18.9.1.4 the quantity to be transferred is in increments of 0.1MW, and the resulting ~~demand response capacity~~ obligations for both the ~~demand response capacity~~ transferor and ~~demand response capacity~~ transferee following the transfer shall be 0 MW, or greater than or equal to 1 MW.:-
- 18.9.1.5 the capacity obligation to be transferred is within the same zone;
- 18.9.1.6 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 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 receiving zone reaching a capacity auction zonal constraint.
- 18.9.2 For each transfer request that satisfies the criteria in section 18.9.1, the IESO shall determine the ~~demand response capacity~~ transferee's revised ~~demand response capacity~~ auction deposit and/or ~~demand response 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 ~~demand response 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 ~~demand response capacity~~ transferee, any additional ~~demand response capacity~~ auction deposit and/or ~~demand response capacity~~ prudential support obligation that may be required as a result of a transfer request.
- 18.9.4 After the revised ~~demand response capacity~~ auction deposits and/or ~~demand response capacity~~ prudential support obligations have been satisfied by the ~~demand response capacity~~ transferee, the IESO shall notify the ~~demand response capacity~~ transferor and ~~demand response capacity~~ transferee of its

approval or rejection, and the *IESO* shall *publish* updated post-auction reports pursuant to [section 18.8](#).

## 19.4 Energy Market Participation for Hourly Demand Response Resources

19.4.1 A *demand-responsecapacity* market participant with a *demand-response capacity obligation* participating with an *hourly demand response* resource shall be eligible for an availability payment in accordance with the applicable *market manual*. Availability payments may be offset by non-performance charges in accordance with section 4.7J of Chapter 9.

### Standby and Activation Notices

19.4.2 If an *hourly demand response* resource has a day-ahead *schedule of record* or a *pre-dispatch schedule* less than the resource's total *bid* quantity for at least four consecutive hours during the *dispatch day availability window*, the *IESO* shall issue a standby notice to the applicable *demand-responsecapacity* market participant by 07:00 EST in accordance with the applicable *market manual*.

19.4.3 If the *IESO* does not issue a standby notice to a *demand-responsecapacity* market participant by 07:00 EST, the *demand-responsecapacity* market participant shall remove their *bids* for the *hourly demand response* resource as soon as practicable and before 9:00 EST. A *demand-responsecapacity* market participant that does not remove their *bids* for the *hourly demand response* resource before 9:00 EST shall comply with any corresponding activation notices issued by the *IESO* in accordance with section 19.4.5.

19.4.4 The *IESO* shall issue an activation notice to a *demand-responsecapacity* market participant ahead of the activation period, in accordance with the applicable *market manual* if a standby notice has been issued in accordance with section 19.4.2 or a *demand-responsecapacity* market participant has not removed their *bids* in accordance with section 19.4.3, and the applicable *hourly demand response* resource has a *pre-dispatch schedule* less than the resource's total *bid* quantity for at least four consecutive hours during the *dispatch day availability window*.

19.4.5 If a *demand-responsecapacity* market participant receives an activation notice pursuant to section 19.4.4, the *demand-responsecapacity* market participant shall comply with the activation notice, unless such a reduction would endanger the safety of any person, damage equipment, or violate any *applicable law*. In such circumstances, the *demand-responsecapacity* market participant shall notify the *IESO* as soon as practicable.

19.4.6 A *demand-responsecapacity* market participant may be subject to non-performance charges, and the *IESO* may take action pursuant to sections 19.2.2 and 19.2.3 if a *demand-responsecapacity* market participant does not

comply with an activation notice pursuant to this section 19, in accordance with the applicable *market manual*. The ~~*demand-response capacity*~~ market participant may also be subject to compliance actions in accordance with section 6 of Chapter 3.

- 19.4.7 A ~~*demand-response capacity*~~ market participant that expects its *hourly demand response* resource to operate in a manner that differs materially from the activation notice issued to it in accordance with this section 19 shall notify the *IESO* as soon as possible and in accordance with the applicable *market manual*.
- 19.4.8 The *IESO* may disqualify from future participation in the ~~*demand response capacity*~~ auction any ~~*demand response capacity*~~ market participant's ~~*hourly demand response resource*~~ participant that fails to reduce its consumption when called upon in accordance with this section 19.

#### Non-performance Events for Hourly Demand Response Resources

- 19.4.9 ~~A~~~~In the event of a material reduction in the~~ *demand response capacity of an hourly demand response resource, associated with a capacity obligation acquired through a transitional capacity auction, the capacity market participant shall submit non-performance events, provided that the demand response market participant notifies~~inform~~ the *IESO* as per the procedures and criteria specified in the applicable *market manual*.*
- 19.4.9A In the event of a material reduction in the demand response capacity of an hourly demand response resource, associated with a capacity obligation acquired through a demand response auction, the demand response market participant shall notify the IESO as per the procedures and criteria specified in the applicable market manual.
- 19.4.10 A ~~*demand-response capacity*~~ market participant shall reduce its *bid* to take into account and reflect the maximum *demand response capacity* that it reasonably expects it can provide due to any non-performance event ~~in a commitment~~~~related to an hourly demand response resource in an obligation~~ period.

#### Activation Testing for Hourly Demand Response Resources

- 19.4.11 The *IESO* may, in accordance with the applicable *market manual*, direct a ~~*demand-response capacity*~~ market participant with a ~~*demand-response capacity*~~ obligation to perform activation testing for each *hourly demand response* resource up to a maximum of two test activations per ~~commitment obligation~~ period to verify that a ~~*demand-response capacity*~~ obligation is deliverable by the ~~*demand-response capacity*~~ market participant.



- 19.4.12 If a ~~demand-response~~capacity market participant fails activation testing performed pursuant to section 19.4.11, the ~~demand-response~~capacity market participant shall be subject to non-performance charges in accordance with the applicable market manual. Failure during activation testing shall be considered a breach of the market rules and may result in sanctions in accordance with section 6.2 of Chapter 3.
- 19.4.13 The IESO shall provide a ~~demand-response~~capacity market participant day-ahead notification of test activations pursuant to 19.4.11 and the test activation shall occur within the availability window of ~~a commitment~~an obligation period.
- 19.4.14 The test activation shall occur in accordance with the hourly demand response resource activation process specified in this section 19.4.
- 19.4.15 The hourly demand response resource shall not be entitled to compensation for any costs related to any valid test activation conducted during a commitment period pursuant to this section 19.4.

## 19.5 Energy Market Participation for Dispatchable Loads with ~~Demand Response~~ Capacity Obligations

- 19.5.1 A ~~demand-response~~capacity market participant with a ~~demand-response~~ capacity obligation participating as a dispatchable load shall be eligible for an availability payment, in accordance with the applicable market manual. Availability payments may be offset by non-performance charges in accordance with section 4.7J of Chapter 9.

### Dispatch of Resources

- 19.5.2 The IESO shall schedule a dispatchable load with a ~~demand-response~~ capacity obligation in the real-time market and issue a dispatch instruction to a dispatchable load with a ~~demand-response~~ capacity obligation in accordance with Chapter 7.
- 19.5.3 A dispatchable load with a ~~demand-response~~ capacity obligation shall comply with IESO dispatch instructions in accordance with Chapter 7.
- 19.5.4 The IESO may disqualify from future participation in the ~~demand response~~transitional capacity auction any ~~dispatchable load facility~~capacity market participant that fails to reduce its consumption when called upon in accordance with this section 19.

### Outage Notification Requirements for Dispatchable Loads with a ~~Demand Response~~ Capacity Obligation

- 19.5.5 Each *dispatchable load* with a ~~*demand response*~~ *capacity obligation* shall comply with the *outage* notification requirements of Chapter 5.
- 19.5.6 A *dispatchable load* with a ~~*demand response*~~ *capacity obligation* shall reduce its *bid* to take into account and reflect the maximum *demand response capacity* that it reasonably expects it can consume due to any *outage*.

### Activation Testing for Dispatchable Load Resources

- 19.5.7 The *IESO* may, in accordance with the applicable *market manual*, direct a *dispatchable load* with a ~~*demand response*~~ *capacity obligation* to perform activation testing for each resource up to a maximum of two activation tests per ~~*commitment*~~*obligation* *period* to verify that a ~~*demand response*~~*capacity obligation* is deliverable by the ~~*demand response*~~*capacity* *market participant*.
- 19.5.8 If a ~~*demand response*~~*capacity* *market participant* fails activation testing performed pursuant to section 19.5.7, the ~~*demand response*~~*capacity* *market participant* shall be subject to non-performance charges in accordance with the applicable *market manual*. Failure during activation testing shall be considered a breach of the *market rules* and may result in sanctions in accordance with section 6.2 of Chapter 3.
- 19.5.9 The *IESO* shall provide a *dispatchable load* with a ~~*demand response*~~ *capacity obligation* day-ahead notification of test activation and the test activation shall occur within the *availability window* of a ~~*commitment*~~*an obligation* *period*.
- 19.5.10 The test activation shall occur in accordance with the *dispatch instructions* for a *dispatchable load facility* specified in this section 19.5.
- 19.5.11 The *dispatchable load facility* shall not be entitled to compensation for any costs related to any valid test activation conducted during a ~~*commitment*~~*an obligation* *period* pursuant to this section 19.5.

## **19.7 Energy Market Participation for Capacity Generation Resources**

- 19.7.1 A capacity market participant satisfying its capacity obligation with a capacity generation resource shall be eligible for an availability payment, in accordance with this section and the applicable market manual. Availability payments may be offset by non-performance charges in accordance with section 4.7J of Chapter 9.

### **Dispatch of Resources**

- 19.7.2      The IESO shall schedule a *capacity generation resource in the energy market*, and issue *dispatch instructions* in accordance with Chapter 7.
- 19.7.3      A *capacity generation resource* shall comply with *IESO dispatch instructions* in accordance with Chapter 7.
- 19.7.4      The IESO may disqualify from future participation in the *transitional capacity auction any capacity market participant* that fails to inject energy when called upon in accordance with this section 19.

#### **Outage Notification Requirements for Capacity Generation Resource with a Capacity Obligation**

- 19.7.5      Each *capacity generation resource* shall comply with the *outage notification requirements* of Chapter 5.
- 19.7.6      A *capacity generation resource* shall reduce its *offer* to reflect the maximum capacity that it reasonably expects it can inject due to any *outage*.

#### **Activation Testing for Generation Resources**

- 19.7.7      The IESO may, in accordance with the applicable *market manual*, direct a *capacity market participant* to perform activation testing for each *capacity generation resource* up to a maximum of two activation tests per *obligation period* to verify that a *capacity obligation* can be satisfied by the *capacity market participant*.
- 19.7.8      If a *capacity market participant* fails an activation test performed pursuant to section 19.7.7, the *capacity market participant* shall be subject to non-performance charges in accordance with the applicable *market manual*. Failure during activation testing shall be considered a breach of the *market rules* and may result in sanctions in accordance with section 6.2 of Chapter 3.
- 19.7.9      The IESO shall provide a *capacity generation resource* day-ahead notification of test activation and the test activation shall occur within the *availability window of an obligation period*.
- 19.7.10     The test activation shall occur in accordance with the *dispatch instructions* specified in this section 19.7.

**PART 5 – IESO BOARD DECISION RATIONALE**

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