

Memorandum

To: Technical Panel
From: Robert Doyle
Date: August 6, 2019
Re: MR-00439-R00-R05: Transitional Capacity Auction

Attached for Technical Panel review and consideration are six market rule amendment proposals to implement a Transitional Capacity Auction (TCA). The proposals represent Phase I of the TCA design, which enables non-committed dispatchable generators to participate in the TCA alongside dispatchable loads and hourly demand response resources. The TCA represents an evolution of the demand response auction (DRA) into a more competitive capacity acquisition mechanism.

At the June 25 Technical Panel meeting, the Technical Panel voted to post the six proposals for broader stakeholder review and comment for a period of two weeks. Submissions were received from the Advanced Energy Management Alliance (AEMA), the Association of Major Power Consumers (AMPCO) and Enel X.

Enel X recommended that section 4.8 of Chapter 9, which is already in effect as part of the DRA market rule set, be amended and then included in the Transitional Capacity Auction rule set. The basis of the recommendation was Enel X's expressed concern that the existing market rule language unfairly impacts auction participants who are subject to non-performance charges.

The IESO met with Enel X to discuss its concerns, and both parties have agreed that read in the broader context of section 4 of Chapter 9, section 4.8 does not unfairly impact auction participants. The IESO explained how it has applied the provisions historically, and Enel X have communicated to the IESO that it is satisfied and no longer recommend its proposed amendment.

Comments from AEMA and AMPCO relate to the compensation treatment of demand response resources in the TCA. Both organizations provided feedback that energy payments provided to generators without an equivalent revenue stream for demand response resources would "introduce undue and unjust discrimination against DR resources in the expanded auction program by requiring them to compete with generators prior to resolution of their eligibility for energy payments." (quoted from AMPCO submission)

The current energy payment structure represents the status quo since dispatchable loads began participating in the IESO-administered-markets (IAM). Prices bid in the energy market represent a point at which a load no longer wishes to consume electricity. However, in response to feedback received through the Demand Response Working Group (DRWG), the IESO has committed to conducting a broader stakeholder engagement on this question and will complete an assessment to determine whether there is a net benefit to electricity ratepayers if DR resources are compensated with energy payments for economic activations. While the IESO is reserving its position on the appropriateness of such payments in the context of a fully developed TCA, it does not believe they are warranted in Phase I.

The incremental changes to the existing DRA, contemplated for Phase I, will have a limited impact on DR resources and access to utilization payments will not be consequential to their participation.¹ We have agreed to complete an in-depth analysis in response to stakeholder concerns and the results of that analysis will inform the IESO's position going forward. In parallel, it is important that the IESO continue taking steps toward increasing the flexibility and competitiveness of capacity auctions in order to meet Ontario's capacity needs in a more cost-effective and transparent manner.

Additionally, since version 1.0 of the market rule amendment proposals, Chapter 7, section 19.4 has been updated as part of the June 5, 2019 baseline to implement [MR-00433-R00: Notification and Activation of Hourly Demand Response](#). The IESO has updated the market rule language in proposal R03 (Chapter 7, sections 19.4.2 and 19.4.4) to reflect the market rules now posted on the IESO website. This does not affect any of the proposed market rule amendments for the TCA.

Panel Action and Next Steps

The IESO recommends that the Technical Panel vote to recommend MR-00439-R00-R05 to the IESO Board of Directors for consideration at its August 28, 2019 meeting. The expected effective date for the proposed amendments is October 15, 2019, which will ensure that the draft market manuals are posted for stakeholder feedback and then finalized before the effective date of the market rules.

Accompanying Materials

The following materials are available on the Technical Panel [webpage](#) and listed below for reference.

- Market Rule Amendment Proposals:
 - MR-00438-R00: Definitions
 - MR-00438-R01: Participant Registration and Facility Authorization
 - MR-00438-R02: Auction Parameters
 - MR-00438-R03: Energy Market Participation
 - MR-00438-R04: Settlement and Non-Performance Charges
 - MR-00438-R05: Clean-up

¹ The IESO is taking steps to examine what compensation may be applicable to HDR resources for out-of-market activations through the DRWG.