

Demand Response Working Group

Introduction to the Incremental Capacity Auction

November 16, 2017

Core Elements of Market Renewal

Market Renewal consists of three distinct work streams:

Work Stream	Primary Objective	Initiatives
Energy	Reduce cost and gain efficiency of scheduling energy to meet provincial demand	<ul style="list-style-type: none">• Single Schedule Market• Day-Ahead Market• Enhanced Real-Time Unit Commitment
Capacity	Reduce cost of procuring incremental resources alongside contracted/regulated assets	<ul style="list-style-type: none">• Capacity Trade• Incremental Capacity Auction
Operability	Increase flexibility to reliably and cost-effectively integrate renewable resources	<ul style="list-style-type: none">• More Frequent Inertie Scheduling• Investigate other opportunities

What is the Incremental Capacity Auction?

Incremental

- Will secure resources to meet system adequacy needs that are not met by contract or rate regulation
- Contracted capacity will not be eligible to participate

Capacity

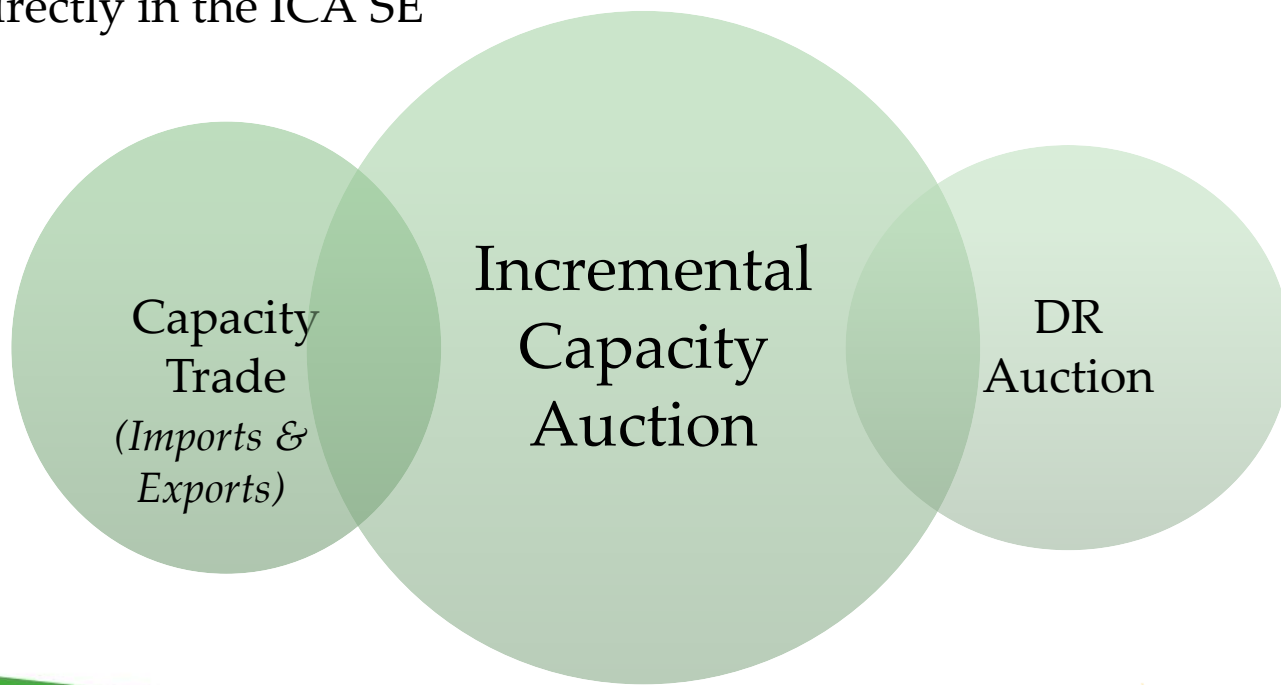
- Will procure a single uniform capacity product
- Other products and services will be incentivized via other revenue streams

Auction

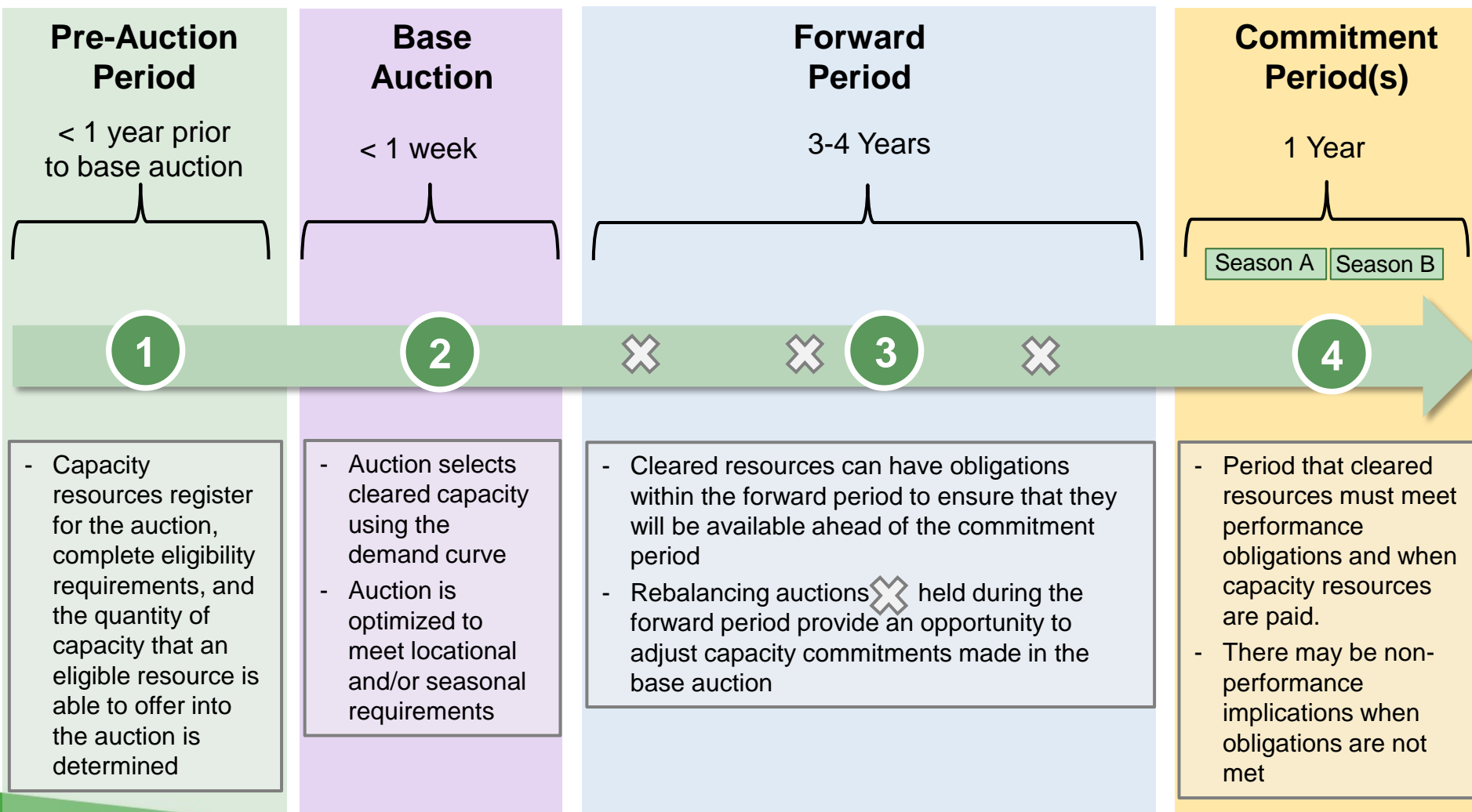
- A stable long-term mechanism that will secure capacity in a technology agnostic manner from diverse resource types
- Fundamental change in risk allocation from contract paradigm

ICA Stakeholder Engagement

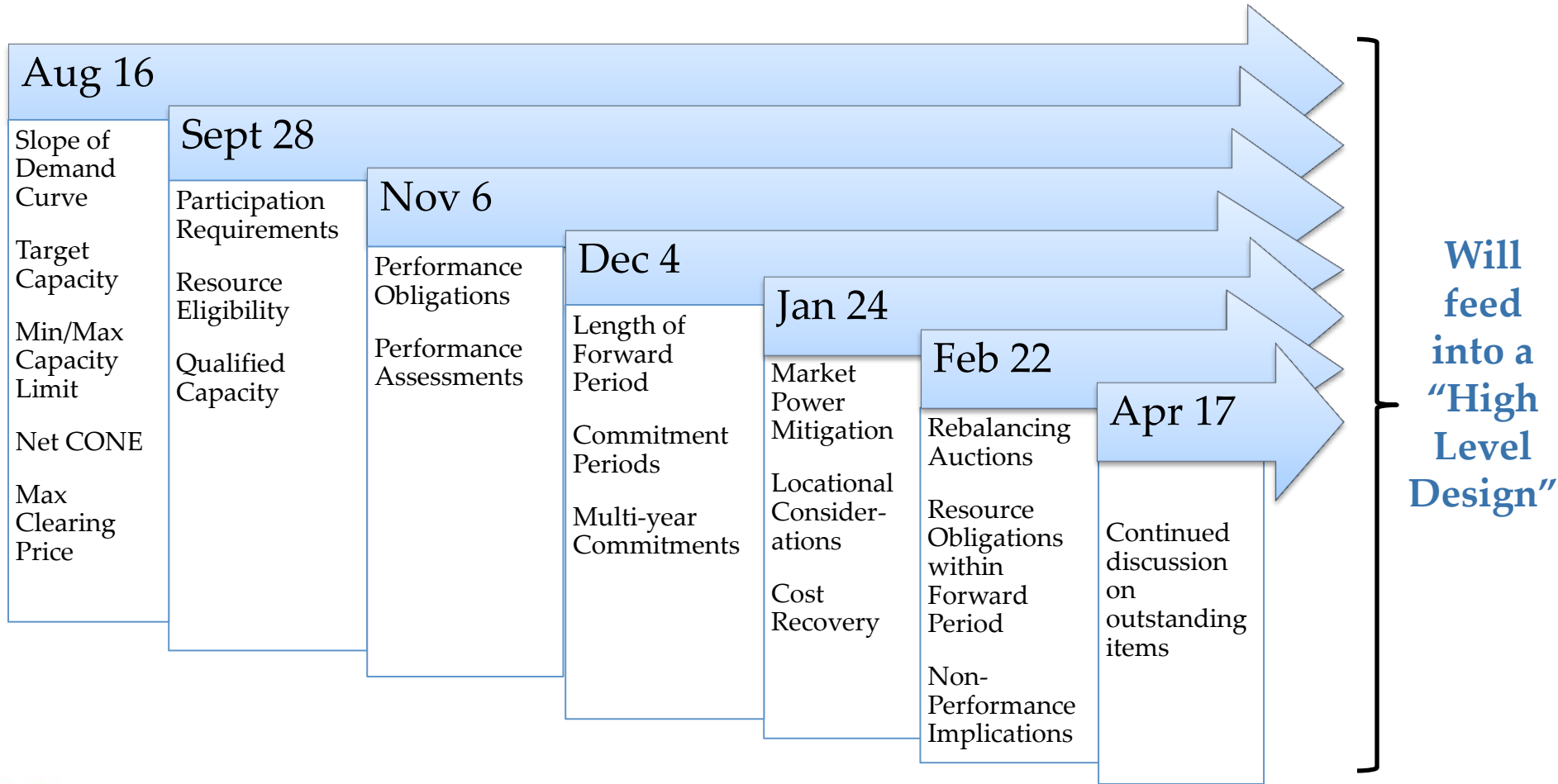
- Development of the ICA will need to integrate both the DR Auction and the existing and upcoming work related to Capacity Trade
 - DRWG will continue to run in parallel to the ICA Stakeholder Engagement (SE), but DR stakeholders are encouraged to participate directly in the ICA SE



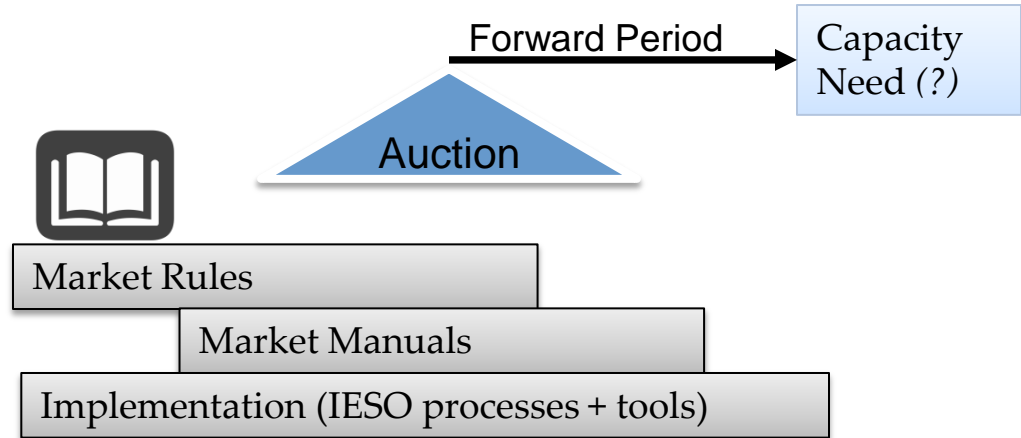
Notional Illustration of the ICA Process



ICA: Options Phase Schedule

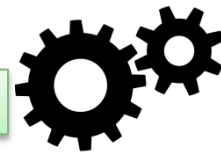


Overall High Level Timeline



High Level Design

Detailed Design



First Auction - Expectations

- Expectations for 1st Auction:
 - A relatively small number of MWs
 - Capacity needs can likely be met without the need for new build generation
 - Will work alongside existing contracts and regulation
 - Auction will continue to evolve over time as additional functionalities are added



Topics of Potential Interest to DR

- **Capacity Qualification process**
 - Will need to establish a process to determine the quantity of capacity a DR resource will be able to offer into the ICA
- **Defining the “Capacity Product”**
 - Currently looking for feedback on “Performance Obligations” and “Performance Assessment” design elements that will establish the requirements for resources that clear the ICA
- **Auction Timelines**
 - At next SE meeting (Dec 4) we will be discussing Forward Period, Commitment Period, and Multi-year Commitment design elements
 - Compared to the current DR Auction, the ICA will have a much longer forward period (although mechanisms that allow for participation closer to the start of the Commitment Period may be considered)
 - ICA may either clear resources on an annual or seasonal basis

Summary

- DR participation in the ICA SE will help ensure DR resources' specific issues are highlighted and considered during the design phase
- Anticipate that DRWG will continue to the forum to address detailed issues and help facilitate the transition from the DR Auction to the ICA
- Further details on the ICA SE can be found on the Market Renewal Program website at:
 - <http://www.ieso.ca/en/sector-participants/market-renewal/market-renewal-incremental-capacity-auction>
 - Feedback should be sent to engagement@IESO.ca