

Incremental Capacity Auction (ICA) – Stakeholder Feedback Form

Stakeholder Options Phase Meeting #1: August 16th, 2017

Feedback request by: 2017/09/13 Date Submitted: 2017/09/14	Feedback provided by: Company Name: Association of Power Producers of Ontario (APPrO) Contact Name: Dave Butters Phone: [REDACTED] Email: [REDACTED]
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By submitting this Stakeholder Feedback Form, the company or individual identified above, as applicable, consents to the disclosure by the IESO of this Stakeholder Feedback Form and its contents, in whole or in part, in stakeholder engagement meetings, on the IESO website or otherwise.

The IESO held the first meeting of the ‘Options Phase’ of the Incremental Capacity Auction engagement on August 16th, 2017. The meeting covered the design elements related to establishing the demand curve (i.e. Target Capacity, Net CONE, Min/Max Capacity Limits, Maximum Auction Clearing Price, and Slope of Demand Curve).

The presentation can be [found here](#).

In order to maximize the effectiveness of this stakeholder engagement process, the IESO requests that stakeholders use the template below to provide feedback on content presented as follows:

- Provide responses to the questions posed
- For options presented, indicate your preference along with applicable rationale/supporting arguments
- Identify any aspects that you believe require further elaboration or discussion

Feedback received may be shared by the IESO on its website, at future stakeholder engagement meetings, or otherwise and will help inform further discussions at future stakeholder engagement meetings.

Please send this form with your feedback to engagement@ieso.ca

ICA Goals & Objectives	Stakeholder Feedback
<p>Draft Goal: <i>Slides 6-14</i></p> <p>Do stakeholders agree with the following proposed Goal statement for the ICA Project?</p> <p><i>The Incremental Capacity Auction Project will develop and implement an enduring market-based capacity procurement mechanism that will, alongside contracted and rate regulated resources, ensure Ontario’s resource adequacy needs are met cost effectively within the broader policy framework.</i></p>	<ul style="list-style-type: none"> • Broader government environmental and electricity policies, goals, and objectives should be explicitly stated or referenced. • Governance remains a critical issue, and many of the following comments address how governance issues will have to be addressed in order for the ICA to credibly claim that it can meet any of the objectives for the ICA. Specifically, the challenge for meeting resource needs in a cost effective way is not the development of a new procurement mechanism. Current and past procurement mechanisms are capable of meeting those goals. However, the challenge has been that procurements are designed to meet political goals more than resource adequacy goals. If that does not change, then a new procurement mechanism, itself, will not make any difference. • APPrO appreciates that the IESO cannot control government decision-making. However, the IESO can control its own decision-making and develop processes to ensure that its decision making is transparent and based on objective criteria. • Therefore, what is required is a procurement mechanism where resource needs are obtained to meet defined needs as measured by independent criteria and, if those criteria are not applied because of a policy override, then the policy override must be clearly stated. Without such assurance, there is no reason to think that procurement under an ICA will be different than procurement under any other mechanism that has been used in the past. • Within that context, the following changes are proposed: <ul style="list-style-type: none"> ○ The Incremental Capacity Auction Project will develop and implement an enduring market-based capacity procurement mechanism that will, alongside contracted and rate regulated resources, will be designed to ensure that decisions to procure capacity will be based on Ontario’s resource adequacy needs are met cost effectively within the broader government environmental and electricity policies, goals, and objectives that the IESO will clearly and transparently articulate. The IESO will ensure that all communications between the government and the IESO respecting procurement decisions will be made public.

Draft Objectives:

Slides 6-14

Do stakeholders agree with the following proposed Objectives for the ICA Project?

1. Meet incremental resource adequacy needs
2. Secure incremental capacity at the lowest cost in the long run

- As APPrO has noted, nuclear and larger Hydro which are important contributors to adequacy need different procurement processes
- Further, the issue of zero-marginal cost resources (e.g., wind) and how they are procured needs to be carefully considered in the context of any ICA.
- The subcommittee struck to examine this issue must feed into this process in a timely and efficient manner
- It is important to note that capacity auctions aren't about the lowest cost in the long run:
 - It is a trade-off between cost and reliability; and,
 - As important, it is about effectively establishing a set of rules which are stable/attractive enough to attract new capital to build resources to meet the reliability requirement
- It includes the stability of rules, the right form of governance and the minutia of the details, like setting the demand curve
- Reasonable consumer rates and an investable climate that is conducive to attract timely generation investment is critical to maintaining system reliability
- Therefore it will be necessary to create a process designed to ensure that the ICA will be used to identify and procure resources so that they are aimed at meeting incremental resource adequacy needs at the lowest cost in the long run
- If there are policy reasons which depart from goal of meeting incremental resource adequacy needs at the lowest cost in the long run, those reasons will be clearly stated by the IESO, and the IESO will ensure that all communications between the government and the IESO respecting procurement decisions will be made public.

<p>Draft Strategic Outcomes: <i>Slides 6-14</i></p> <p>Do stakeholders agree that the objectives can be achieved if, within the broader policy framework?</p> <ul style="list-style-type: none"> • A transparent market price is established for the value of capacity in each zone • Incremental capacity is secured in the locations and timeframes that align with resource adequacy needs • Diverse resource types are enabled to compete to meet resource adequacy needs • Auction design evolves over time to address sector changes and improve auction outcomes • Risk is appropriately allocated 	<ul style="list-style-type: none"> • APPrO considers that this can only be achieved if the right governance structure is in place: <ul style="list-style-type: none"> ○ Decisions for the identification and procurement of capacity will be based on clear and transparent objective criteria ○ All communications between the government and the IESO respecting procurement decisions will be made public. ○ How is conflict resolution to be managed? For example it is important to have a referee. In NY, FERC allowed Market Participants an avenue to have things changed when rules were not being followed. How will this be done in Ontario given the current governance structure?
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Design Element	Features	Questions for Stakeholders	Stakeholder Feedback
Target Capacity	Hold-Back <i>Slides27-32</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. With “Hold-back” 2. Without “Hold-back” QUESTION: What other considerations could inform this decision?	<ul style="list-style-type: none"> • No ISO has a holdback and at this point it does not appear to be critical in the first design • Holdback is a function of the Demand Curve; therefore, at this stage this question is somewhat premature considering where the ICA process is. Decisions regarding the Demand Curve need to be finalized before it can be determined if a hold back is required (likely not as no other jurisdiction has one) or what that holdback should be • Further, a holdback has cost implications
	Transparency and certainty <i>Slides33-36</i>	QUESTION: What information would stakeholders/participants require in order to understand how the reserve requirement, and	<ul style="list-style-type: none"> • Market Participants need the ability to create their own capacity views but need basic information of what supply and demand will roughly be in order to run price

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		subsequently the Target Capacity, is determined by the IESO? <ul style="list-style-type: none"> To ensure IESO communicate relevant information, it would help to understand the intended use of the requested information 	scenarios. Therefore, as a matter of general principle the default should be all information, other than truly confidential information, should be provided. <ul style="list-style-type: none"> The current OPO although provides certain information, APPrO suggests that something more closely related to an Integrated Resource Plan (IRP) would be required. Market Participants should be able to duplicate the IESO’s analysis as a check & balance and to determine if there is an error in the analysis Out of market agreements and/or arrangements made by or being considered by government (e.g., the ON-HQ deals) need to be explicitly and publicly accounted for.
	Timelines <i>Slides37-39</i>	<p>QUESTION: What activities do participants envision typically occurring after the Target Capacity has been published (e.g., arranging financing, vendors, project development work, site selection, permitting, etc.)?</p> <ul style="list-style-type: none"> How long, on average, would these activities take? <p>QUESTION: How far beyond the commitment period would stakeholders desire that “Target Capacity” <u>projections</u> be published?</p>	<ul style="list-style-type: none"> Can the IESO please clarify what is meant by Question 1? Many of the activities (as presented in the examples) occur during the “forward period” and not after publication of the Target Capacity (as the TC is usually published closer to the auction itself). As the forward period is a design element on its own, APPrO is not clear as to the intent of the question. All the activities noted depend on the type of resource and it is more important for “new” build rather than existing generation Furthermore, these activities take years in order to accommodate new build – likely could require ~4 years (e.g., for a peaker) For Question 2, Independent Power Producers (IPP) should get the equivalent of a 10-year outlook (rolling 2-year basis) Basically, as noted above, IPPs require basic information of what supply and demand will be over the period in order to create their views Getting the Target Capacity right is more important than

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			<p>when the Target Capacity is published.</p> <ul style="list-style-type: none"> • Therefore, if it is provided 1 year in advance it is likely not to be accurate (or less accurate) the closer one gets to the auction as things may have changed on the system. Therefore, the longer out the TC is published the IESO should “update” the TC closer and closer to the auction. • In this respect the first auction should be the most challenging; subsequent ones less so. Therefore more time for the first one should be a consideration
Net CONE	Reference Technology <i>Slides46-49</i>	QUESTION: What considerations should drive the selection of the reference technology in Ontario?	<ul style="list-style-type: none"> • Here, the issue will be balancing a number of potentially conflicting issues: <ul style="list-style-type: none"> ○ Government goals and objectives, and policy, ○ Technological innovation and evolution, ○ Technology “agnosticism”, ○ Lowest cost technology. • For an ICA to make any sense, and deliver the CBA benefits Brattle suggest, the reference technology should be the lowest cost, <u>proven</u> technology that can be permitted. • This requires independent verification as in US capacity markets.
	Gross CONE <i>Slides50-52</i>	QUESTION: Are there Ontario-specific considerations that should be reflected when establishing the methodology for estimating Gross CONE?	<ul style="list-style-type: none"> • This gets into zonal, gross CONE discussions, whether IPPs have firm GD&M services, cost of land, labour costs, taxes, etc. This is a very complex set of interacting issues. • A good governance structure needs to be in place in order to establish gross CONE: <ul style="list-style-type: none"> ○ What is the stakeholding process to determine CONE? ○ Who makes the decision? In NYISO, MPs have voting rights. In Ontario this is not the case. How will this be resolved? ○ Also, broader policies may impact CONE

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	Energy & Ancillary Services Offset <i>Slides53-55</i>	QUESTION: What considerations do stakeholders feel is important to consider when defining the methodology for forecasting the E&AS Offset?	<ul style="list-style-type: none"> • This necessitates very little government interference in the wholesale electricity market (e.g., out of market deals with HQ) as broader policy objectives will impact the energy margin going forward. How will this be managed? How do you make investment decisions when policy decisions are made that can suppress margins? • E&AS forecasts should likely be based on historic data. It is our understanding that NY went from forecasting E&AS to a look back method...again an independent consultant did this work.
	Stakeholder Involvement <i>Slides56-59</i>	QUESTION: What expectations do participants have for their level of involvement in setting the inputs that will feed into the Net CONE study? QUESTION: To what extent should the outputs from the Net CONE study be open to debate or revisiting?	<ul style="list-style-type: none"> • Obviously E&AS offset needs to be robustly stakeholdered. This is a critical issue given the increasing importance of zero-energy costs resources. • Substantial debate and revisitation, if necessary, will be critically important. But who decides? What rights do IPPs have to question decisions? Again this comes back to governance.
	Frequency of Revision <i>Slides60-64</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Reset performed > 4 year cycle 2. Reset performed every 3-4 years 3. Reset performed < 3 year cycle QUESTION: What other considerations could inform the decision of how frequently the Net CONE components need to be updated?	<ul style="list-style-type: none"> • This is more critical for new resources than existing supply because as a new supplier, decisions will be made for a 20 year period • The less often the reset, the more stability for a new supplier. This also reduces the impact of stakeholder fatigue. • Government policy decisions will also impact the frequency (e.g., if CONE is set for (say) a gas peaker and one month later the government decides that no more gas can be built in Ontario then Net CONE will have to be updated immediately). • It may be possible to have a less frequent Gross CONE update but E&AS could be done more frequently resulting in essentially a new net CONE new each year

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	Zonal Net CONE <i>Slides65-69</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Single Net CONE for Ontario 2. Use zonal Net CONE estimates QUESTION: What other considerations could inform the decision of whether to estimate zonal Net CONE values?	<ul style="list-style-type: none"> • APPrO recommends using a zonal methodology in order to send the right price signals to build wires and generation where it is required • However, other markets took some time and needed to mature before zonal capacity came about. • Other issues for consideration are regional planning, gas infrastructure and in the case of new assets, local construction conditions.
Min/Max Capacity Limit	Methodology for determining limits <i>Slides78-82</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Set as a percentage of Target requirement 2. Based on specified LOLE 3. Based on low/high demand outlooks QUESTION: Are there any other considerations that should be taken into account when establishing the mechanism for setting minimum/maximum limits for the base auction?	<ul style="list-style-type: none"> • At this time this level of detail seems inappropriate to be discussing as this will fall out of the detailed work. • Some questions have been raised about the appropriate calculations of LOLE. • Usually net CONE marks to the Target Capacity required. Therefore, we should look carefully at other jurisdictions in the NE US where this has been well debated and enshrined, in order to structure the parameters.
Maximum Auction Clearing Price (MACP)	Methodology for calculating MACP <i>Slides90-94</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Function of Net CONE 2. Function of Gross CONE QUESTION: What other considerations could inform the decision of how to establish the MACP? <ul style="list-style-type: none"> – Gross CONE vs. Net CONE – Magnitude of multiplier 	<ul style="list-style-type: none"> • To a large extent, this will fall out of the detailed work/discussion. • However, zero-energy resources (see p.91) also need to be considered going forward. • Out of market government-to-government arrangements (while antithetical to sound market design) may also figure in this discussion • The political appetite for price volatility is another consideration.

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	Price Floor for MACP <i>Slides95-99</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. With Price Floor 2. Without Price Floor QUESTION: What other considerations could inform the decision of whether a price floor for MACP is required?	<ul style="list-style-type: none"> • This is only applicable if the MACP is a function of net CONE • The probability of having sustained high net energy and ancillary margins that would drive net CONE down significantly is low. Perhaps the NYISO construct of basing the cap on gross CONE is the way to start (for Ontario) and refine it later if need be (to net CONE cap + floors) • Can the IESO provide the pros/cons associated with incorporating a floor price versus no floor price. What are the implications on reliability?
Slope of Demand Curve	Shape of demand curve <i>Slides107-114</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Steeper Slope 2. Flatter Slope 3. Convex 4. Concave QUESTION: What aspects of each demand curve shape do stakeholder believe Ontario should adopt? Why?	<ul style="list-style-type: none"> • Linear in some form seems the easiest way to begin. Convex and concave are complicated for an initial auction, but can be implemented if need be. • Steeper vs flatter is a trade-off between cost and reliability • The shape of the Demand Curve is also a function of the MACP; therefore, should MACP details be agreed upon first, prior to making a decision on the shape of the curve?

General Comments/Feedback:

APPrO remains concerned that the market renewal process does not yet include a stream to examine the impact of the proposals on contracted and regulated suppliers. The outcomes as we noted in our comments of March 31, 2017, will likely have impacts on the economics and investments made by incumbent contracted suppliers, and may require significant amendments to contracted suppliers (or rate regulated resources). We recognize that at this time it is difficult to determine the precise contractual impacts and the required amendments. However, potential changes to implement LMP, DAM, Capacity Market, etc., all have far reaching impacts to future wholesale market operations and revenues, along with triggering contract amendments which could adversely affect supplier economics if not fairly treated. Without a clear understanding of what these are, their timing, and a commitment to impact mitigation and a strategy from the IESO to keep suppliers economics whole in any transition, it may be challenging for all suppliers to support such a broad market renewal effort.

Fundamentally, generators who were willing to make a commitment to Ontario to restore its reliability and assist in taking us through and off coal and to cleaner environment should not be penalized by any new approaches on resource adequacy.

APPrO appreciates that the IESO has taken note of the impact on contracts as a critical MR issue to be managed: “...the IESO understands that the potential for Market Renewal to impact contracts is a key concern for many stakeholders. The IESO is not looking at contracts as an opportunity for further cost savings. We recognize that contracts will be impacted and we will work with counterparties in a collaborative fashion to address these issues.”

This issue remains (along with future political and governance risk, and the unique nature of the Ontario electricity system), potentially a very significant impediment for a successful market renewal initiative of the breadth and depth proposed by the IESO. APPrO encourages the IESO to start engaging suppliers now, at least in terms of general principle (e.g., “no worse off”, “supplier economics kept whole”), likely through a specific MRWG subcommittee which can begin thinking now about appropriate mitigation strategies during any transition.

Many of the options presented to-date reflect significant evolution in other jurisdictions. Due to the complexity and the interplay of the various options under consideration, APPrO would expect that “decision-making” will require several iterations prior to landing on a final design.