

Incremental Capacity Auction (ICA) – Stakeholder Feedback Form

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

Feedback request by: 2017/09/13	<u>Feedback provided by:</u>
Date Submitted: <i>2017/09/11</i>	Company Name: Powerful Solutions
	Contact Name: Peter Inman, P.Eng.
	Phone:
	Email:

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>	<p>The Draft Goal statement on Page 13 states that Incremental Capacity will be procured alongside contracted and rate regulated resources. As existing contracts/rate regulated agreements expire, a process needs to be established that determines whether contracts are renewed, or are to participate in the Incremental Capacity process. The process should be technologically agnostic and driven by what will meet resource adequacy and reliability at the lowest long term costs.</p>
<p>Draft Objectives: <i>Slides 6-14</i></p> <p>Do stakeholders agree with the following proposed Objectives for the ICA Project?</p> <ol style="list-style-type: none"> 1. Meet incremental resource adequacy needs 2. Secure incremental capacity at the lowest cost in the long run 	<p>The LTEP and Regional Planning documents should provide the context for the need for incremental capacity, and the region where it is required. The Capacity Procurement documents should provide more specifics as to the need for and business case for incremental capacity.</p>
<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 	<p>Agree with what has been provided - should also add:</p> <ol style="list-style-type: none"> (1) Provide a positive contribution to the Market Renewal cost savings outlined in the Brattle Report. (2) Transparency requires Simplicity - the more complex the process, the less transparent as only the 'experts' will understand, and then stakeholders will not trust the process.

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?	Preferred option 2 – Without Holdback Rationale: The IESO should procure only what it needs, where it needs it and when and should convey this message to all stakeholders. A Holdback just adds complexity with little or no value.
	Transparency and certainty <i>Slides33-36</i>	QUESTION: What information would stakeholders/participants require in order to understand how the reserve requirement, and 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 	Transparency and Certainty - The IESO already provides the LTEP and Regional Plans that identify provincial and locational issues, providing context for the need for Incremental Capacity. The IESO should specify what capacity is required, where (if it is relevant), and when, so that participants will know what is expected.
	Timelines <i>Slides37-39</i>	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.)? <ul style="list-style-type: none"> • How long, on average, would these activities take? QUESTION: How far beyond the commitment period would stakeholders desire that “Target Capacity” <u>projections</u> be published?	The IESO should also specify whether they are seeking an Expression of Interest, or Firm Commitment along with the evaluation criteria to be used to select from amongst participants. Participants selected would be provided a limited time frame to arrange financing, permitting, etc. within which to firm up arrangements and finalize the contract.

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Net CONE	Reference Technology <i>Slides46-49</i>	QUESTION: What considerations should drive the selection of the reference technology in Ontario?	Net CONE Reference Technology - The selection of Capacity should be technologically agnostic, and therefore selecting a 'reference technology' would be a mistake. Capacity requirements should be determined by what Capacity is required, and for how long. The Load Duration Curves on Pages 18 - 19 of the June 22, 2017 Ontario Demand Forecast shows that approximately 2,000 MW are needed intermittently, for less than 10% of the time. Therefore, Capacity could be defined as MW needed daily, for a specified daily duration. This definition would be technologically agnostic and short duration daily Capacity would provide the opportunity for proposals for that include Energy Storage, Demand Response, etc. Short duration capacity could also provide Energy and Ancillary Services as a secondary benefit.
	Gross CONE <i>Slides50-52</i>	QUESTION: Are there Ontario-specific considerations that should be reflected when establishing the methodology for estimating Gross CONE?	CONE - The use of CONE is based on an outdated cost model that relies on traditional central power plant models using gas or coal and is obsolete. It would be better to have potential developers provide proposals of fixed and variable rates over time based on their cost to operate and maintain their technology.
	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?	The use of Net CONE, E&AS Offset, single or zonal Net CONE, Capacity limit, Maximum Auction Clearing Price, and Demand Curve slope are all very complicated and impede transparency. These terms would be irrelevant if the IESO used a competitive process whereby suppliers are paid as bid, rather than an auction clearing price.

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	Stakeholder Involvement <i>Slides56-59</i>	<p>QUESTION: What expectations do participants have for their level of involvement in setting the inputs that will feed into the Net CONE study?</p> <p>QUESTION: To what extent should the outputs from the Net CONE study be open to debate or revisiting?</p>	The use of Net CONE, E&AS Offset, single or zonal Net CONE, Capacity limit, Maximum Auction Clearing Price, and Demand Curve slope are all very complicated and impede transparency. These terms would be irrelevant if the IESO used a competitive process whereby suppliers are paid as bid, rather than an auction clearing price.
	Frequency of Revision <i>Slides60-64</i>	<p>Please identify preferred option and provide supporting rationale.</p> <p>OPTIONS:</p> <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 <p>QUESTION: What other considerations could inform the decision of how frequently the Net CONE components need to be updated?</p>	No Longer Relevant/ Applicable. See response above.
	Zonal Net CONE <i>Slides65-69</i>	<p>Please identify preferred option and provide supporting rationale.</p> <p>OPTIONS:</p> <ol style="list-style-type: none"> 1. Single Net CONE for Ontario 2. Use zonal Net CONE estimates <p>QUESTION: What other considerations could inform the decision of whether to estimate zonal Net CONE values?</p>	<p>No Longer Relevant/ Applicable. See response above.</p> <p>The preferred location of Incremental capacity should be such that it maximizes existing infrastructure and minimizes operating costs in the long term.</p> <p>There should be a provincial value, not a zonal value.</p>

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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?	The IESO should determine what it needs and procure according to lowest cost bid to highest. Should the highest bid span the target requirement, then the IESO should evaluate whether to accept as is, reject, or revise the offer in collaboration with the affected bidder.
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 	This feature is irrelevant if the IESO used a competitive process whereby suppliers are paid as bid, rather than an auction clearing price.
	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?	Without Price Floor. If the bidder chooses to offer Capacity at zero price, and be paid at this rate, why would a competitive market deny this approach?

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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?	This feature is irrelevant if the IESO used a competitive process whereby suppliers are paid as bid, rather than an auction clearing price.

General Comments/Feedback:

The IESO needs to consider alternatives to an 'Auction' process. It is recommended that a RFP process be used whereby the IESO provides the specification of what is required, where it is required, and the proposals evaluated based upon the evaluation criteria (Scoring Sheet and Net Present Value) that was published as part of the Request for Proposal. Successful bidders would be paid their price as bid: - fixed and variable revenues as Capacity services are delivered.

Market Renewal needs to focus on straightforward approaches that simplify and focus on activities that will capture savings identified in the Brattle Group report.

Thank you for the opportunity to comment!
 Peter Inman