

Final Engagement Summary Report

Date: February 17, 2021

Energy Efficiency Auction Pilot

Engagement Initiated: November 2019

Engagement Description

The IESO has historically been a leader in North America in pay-for-performance Energy Efficiency (EE) programs, whereby customers are rewarded on a \$/kWh basis for verified energy savings providing benefits to both customers and ratepayers. Jurisdictions in Europe and the U.S. have introduced market-based mechanisms (e.g. competitive tenders and auctions) to procure some or all of their EE needs. Further, some Independent System Operators and Regional Transmission Operators that hold capacity auctions allow EE resources to participate.

The IESO is piloting an auction-based mechanism for procuring Energy Efficiency (EE) to inform long-term discussions about enabling EE to compete to meet system needs through an appropriate market-based mechanism. In particular, through the pilot, the IESO is seeking to understand the receptivity of the EE market to participating in auction-style procurements as well as the benefits to the system of acquiring EE through this type of competitive mechanism.

The Energy Efficiency Auction Pilot engagement was launched to ensure stakeholders and communities understood the initiative, and had the opportunity to inform the development of the pilot.

Engagement Objective

The objective of this engagement was to ensure that stakeholders and communities understood the initiative and had the opportunity to provide input to inform the design, processes, timelines, resource eligibility, measurement and verification requirements, and contract for EE delivery for the Auction Pilot.

The IESO sought feedback from stakeholders on:

- The high level design of the Auction Pilot, the associated processes and timelines, as well as resource eligibility.

- The detailed design elements of the Auction Pilot, including the measurement and verification requirements, contract for EE delivery, as well as the process for participating in the auction.

Engagement Approach

This stakeholder engagement was a public engagement process and was conducted in accordance with the IESO's approved [engagement principles](#). The approach for this engagement initiative included opportunities to provide input through various channels such as in-person meetings, webinars, and written feedback. All materials, public feedback and commentary from stakeholders, and IESO responses to feedback was posted on the dedicated IESO engagement webpage for this initiative.

Stakeholder engagement on the Auction Pilot was divided into two phases.

Phase 1: Review of High-Level Design of Auction Pilot

The high-level design sought to balance alignment with existing IESO auction designs while managing complexity for auction participants and managing the administrative obligations placed on the IESO by the pilot. The IESO sought feedback on the high-level design of the pilot auction, the associated processes and timelines as well as resource eligibility.

Phase 2: Review of Detailed Design of Auction Pilot

The detailed design addresses Measurement and Verification (M&V) procedures, the contract for assuming an obligation to provide EE capacity, and detailed requirements for qualifying EE resources and confirming auction participant eligibility. The IESO sought feedback on detailed elements of the Auction Pilot, including a review of the M&V requirements, contract for EE delivery, as well as the process for participating in the auction.

Conclusion

Stakeholders actively participated and provided feedback throughout this engagement. Utilities such as Alectra, Hydro One and Toronto Hydro, municipalities including City of London and City of Ottawa, as well as various energy services companies were consistent participants in the discussion and feedback cycle.

As part of Phase 1, following the November 13, 2019 posting of the draft high-level design, and the November 20, 2019 webinar introducing the Auction Pilot, stakeholder feedback resulted in adjustments to the draft high level design (commitment period, auction price cap, capacity annualization period, etc.), timelines, and eligibility criteria. These changes to the high-level design are described in the March 23, 2020 presentation, found on the [engagement webpage](#). Specifically, the following adjustments and revisions were made in response to stakeholder feedback:

- The original proposed two-year commitment period was revised to a one-year commitment period by dropping the first and last seasonal obligation periods in the draft High-Level Design.

- The forward period was extended to 20 and 24 months for summer and winter resources, respectively, resulting in summer resources receiving their full EE capacity payments 12 months earlier than the original design proposal.
- The original proposed reference price, the Save on Energy Retrofit program incentive rate for custom lighting projects of \$400/kW, was revised to instead reference the historic Save on Energy Retrofit program incentive rate for custom non-lighting projects of \$800/kW, resulting in a price cap of \$1000/kW (from the originally proposed price cap of \$500/kW).
- The auction pilot moved to a single-year commitment period, but also extended the forward period to better enable measures with longer sales and construction periods to compete.
- After exploring options to extend the maximum Effective Useful Life considered in evaluating auction offers while controlling the risks, the capacity annualization period was revised to a maximum of 10 years.
- While closely monitoring developments with the employment of largely automated meter-based M&V approaches in other jurisdictions, recognizing stakeholder-noted challenges regarding meter data access, and the stakeholder-supported desire to move forward with the pilot expeditiously, the pilot employed M&V procedures largely adapted from the Save on Energy Retrofit programs.
- IESO imposed a cap on maximum eligible resource size to preclude one or a few resources sweeping the auction, limiting pilot learnings.
- Based on stakeholder feedback, IESO explored several alternate approaches for setting the Maximum EE Resource Size cap. Offers for a single resource were capped at the lesser of 3.25 MW (representing 25% of the auction capacity limit) or \$1.25M (representing 50% of the seasonal auction budget).

Phase 1 of the engagement concluded with the February 28, 2020 posting of the Final High-Level Design document, with adjustments reflective of the above noted feedback.

Phase 2 of the engagement began March 23, 2020, where the IESO presented and sought feedback on specific elements of the detailed design of the auction. Stakeholder feedback resulted in adjustments to the detailed design (meter data requirements, M&V procedures, termination/payment terms, timelines, etc.). Specifically, the following adjustments and revisions were made in response to stakeholder feedback:

- The IESO removed the requirement that EE capacity providers provide an hourly (or sub-hourly) meter data file for all facilities contributing to a resource, as well as removed related requirements regarding providing meter ID and metering arrangement information.
- The IESO committed to update the M&V Procedures and example Basic M&V Plan to note that the Analysis Procedures section can simply refer to the Measure Reference Manual (or IESO-accepted Measure Substantiation Sheet, if applicable).
- IESO updated the formulas such that in the event of IESO termination without cause during the Forward Period, EE capacity providers would receive:

- Payment equivalent to 50% of full capacity payment if terminated before submission of the EE Resource Plan Update (from 40%); and
- Payment equivalent to 70% of full capacity payment if terminated after submission of the EE
- Participant Agreement terms were revised to clarify that IESO liability is capped at the value of the EE capacity payment assuming full performance.
- The Participant Agreement was revised to clarify that IESO will have reasonable access to facilities for a period of three years (from the original proposal of seven years).
- Responding to suggestion that IESO provide an option to review and approve M&V plans during the Pre-Auction Period to allow any discrepancies in the M&V plan to be addressed before a participant decides to move forward in the Auction Pilot, the detailed design was updated, whereby prospective auction participants will be able to submit a full M&V plan for IESO review prior to the auction itself.
- Responding to stakeholder comments, the IESO decided to conduct an additional stakeholder engagement touchpoint to solicit feedback on proposed rescheduling of the EE Auction Pilot such that the auction takes place in March 2021 for EE capacity delivery in Winter 2022-2023 and Summer 2023 (proposed revised timeline responding to the COVID-19 public health crisis) as well as exploring options to encourage successful auction participants to voluntarily provide hourly meter data from facilities.

In a May 19, 2020 presentation, the IESO presented proposed revisions to the Auction Pilot timeline. Subsequent to the meeting, all submitted stakeholder feedback indicated support for the revised timeline, and the Auction Pilot timeline was revised such that auction will take place in March 2021.

The Energy Efficiency Auction Pilot engagement was concluded with the posting of the Final Detailed Design documents on June 30, 2020. Additional adjustments to the detailed design documents were made in November, 2020 to clarify rules pertaining to interaction with Capacity Auction and eligibility of technically dispatchable resources in response to stakeholder feedback.

Thank you to all stakeholders for your participation. All materials will continue to be available on the IESO website under [Completed Engagements](#).