
FAQs: Energy Efficiency Auction Pilot

Background

What is the Energy Efficiency Pilot Auction?

The IESO is piloting an auction mechanism to procure peak demand reductions from energy efficiency (EE) and sustained load-shifting resources ("EE capacity¹"). The IESO is seeking up to 13 MW of incremental sustained reductions in demand from EE resources during specific hours during two seasonal obligation periods: winter 2022/23 and summer 2023. The pilot auction has a budget of \$5M.

Auction participants will submit bids into the auction communicating how much EE capacity they can provide for the summer and/or winter obligation periods and at what \$/kW cost.

Why is the IESO running this pilot?

As a low cost resource, EE has been leveraged to support overall system reliability. The existing incentive-based Save on Energy programs are very successful but as part of the IESO's drive for competition and cost-effectiveness, the IESO is piloting an auction-based mechanism for procuring EE. The IESO wants to assess the interest and ability of different sectors to participate in EE auctions, discover the price for EE when competition for delivery is enabled, and better understanding various implementation issues.

How does the EE Auction Pilot fit in with other IESO resource procurement initiatives such as the Save on Energy programs and Capacity Auction?

The EE Auction Pilot is not intended to replace Save on Energy programs. Existing Save on Energy programs continue to be offered under the Interim Framework with a deadline for pre-approvals of December 31, 2020. On September 30, 2020 the Minister of Energy, Northern Development and Mines directed the IESO to implement a 2021-2024 Conservation and Demand Management Framework launching the week of January 4, 2021.

The IESO's first Capacity Auction will be held on December 2, 2020 for 2021 summer and 2021-22 winter obligation periods. The Capacity Auction evolves the previous demand response auction to enable competition between more resource types. Non-dispatchable EE is not currently an eligible resource in the Capacity Auction.

The EE Auction Pilot is intended to be a single auction pilot that can produce information about the price and characteristics of competitively procured EE that can be to inform a variety of future resource acquisition strategies.

¹ Italicized terms are key terms defined in the [Detailed Design document](#)

Why does this pilot focus on peak demand savings and not energy savings like some current and past EE programs have?

Reflecting forecasted system needs in the latest Annual Planning Outlook, Ontario is expected to have more than enough energy supply available on an annual basis through 2020s, but peak demand is forecasted to outstrip contracted supply during winter and summer peak hours from approximately 2023 onwards.

What are the benefits of participating in this pilot?

The auction provides flexibility for customers to bid in EE resources that are aligned with their facility opportunities and needs and can potentially include funding for measures and approaches that may not be incented through existing Save on Energy programs. Participants can also tailor their bid prices to align with the costs required to implement their proposed EE resources rather than relying on fixed incentives through the Save on Energy programs.

Eligibility

Do I need to be a market participant?

No, participants do not need to be registered as a market participant. However, contributors must be connected to IESO-Controlled Grid or an Ontario distribution system (or behind the meter of another connected customer).

Can an Auction Pilot EE Resource also be funded through Save on Energy incentive programs?

Measures receiving funding from the IESO, through a Save on Energy program, or other electricity ratepayer-funded EE program are ineligible. However, there are no restrictions on funding from other sources (e.g. natural gas efficiency programs, greenhouse gas reduction incentives, etc.).

Can an Auction Pilot EE Resource also provide demand reduction through other load flexibility initiatives and/or the Industrial Conservation Initiative?

Measures can be used to provide both a sustained demand reduction over the EE Auction Pilot obligation window as an EE Resource in the EE Auction Pilot while also providing an incremental demand reduction in response to a demand-response (DR) activation or other dispatch instruction, provided that the DR or dispatch obligations is incremental to the EE Capacity procured through the EE Auction Pilot associated with that resource.

Participation in the Industrial Conservation Initiative (ICI) will not impact facility eligibility.

If an organization wants to participate in the auction but cannot deliver an EE resource that meets the minimum size threshold, can it partner with other organizations or a consortium managed by a third party?

Yes, facility owners and operators can partner with other businesses, organizations or aggregators to deliver an EE resource that aggregates measures located at different facilities to meet the minimum size threshold.

Participation

What are the EE Auction Pilot timelines?

Please refer to the timeline of activities listed in Figure 8: EE Auction Pilot timelines in the [Detailed Design document](#).

How would I go about pricing offer?

It is up to participants to determine their offer prices and strategy. However; a good place to start if you have an existing project registry is to look at the projects that have an Internal Rate of Return/payback period/etc. that doesn't currently meet your hurdle rate and determine how much additional revenue is necessary to meet the hurdle rate. This delta (plus cushion for M&V costs, reporting costs) can be useful for informing your offer price.

How does the *capacity annualization period* or effective useful life of measures affect the EE capacity payment?

EE capacity payments are determined based on the accepted seasonal offer price (\$/kW) multiplied by the seasonal *EE capacity* (kW) that clear the auction, adjusted for any non-performance.

The *capacity annualization period* (i.e., the average effective useful life for the *EE resource* weighted based on the kW quantity of each *measure* relative to the resource's total *EE capacity*) is used only to calculate the annualized capacity cost (\$/kW-year-winter/summer) that is used to assess and select successful offers.

Are there penalties for dropping out of the auction before the *obligation period* or non-performance?

An aim of the EE Auction Pilot is to reduce barriers to participation in order to maximize learnings. As such, the only penalties in the EE Auction Pilot are non-performance penalties that reduce the capacity payments where an *EE resource* delivers less than its full committed *EE capacity*. Under no circumstances will the non-performance charges exceed the *EE capacity* payment had the *EE resource* fully delivered (i.e., the *EE capacity provider* will never find itself obliged to pay the IESO). However, the IESO would expect that all participants are acting in good faith when they submit a bid to the EE Auction Pilot that they will be able to deliver the *EE resource* by the *obligation period(s)*.

Why are there penalties for non-performance?

The IESO depends on demand reductions from energy efficiency projects when planning to ensure it can balance supply and demand during peak periods. Penalties are reflective of the fact that if assumed peak demand reduction doesn't materialize, the IESO must secure additional resources to ensure it can maintain reliability. Generators and demand response resources contracted for reliability purposes are similarly subject to penalties if they cannot make their obligated capacity available.

What is the *EE capacity* enrollment process and what do I have to submit?

To be eligible to compete in the auction, an *EE resource* must first be reviewed and confirmed by the IESO. This process is known as *EE capacity enrollment*. Potential participants must submit the following documents between December 1, 2020 and February 10, 2021 to enroll an *EE resource*:

- Articles of Incorporation
- Most recent audited financial statement that is no more than three years old; if a potential participant is already a registered market participant, this is not required
- A signed [Participation Agreement](#)
- [EE Resource Plan](#) that provides information about a proposed *EE resource*, including proposed measures and their effective useful life, estimated EE capacity, proposed M&V approach, etc.
- If seeking recognition of deemed savings for a measure not listed in the [Measure Reference Manual](#), submit a complete substantiation sheet (see [M&V Procedures](#) for template)
- Option: auction participants may also submit M&V plans at this time for IESO review

For more information, see Section 6.1.1 of the [Detailed Design document](#).

What are the EE Auction Pilot measurement and evaluation requirements?

IESO has published pilot-specific [M&V Procedures](#) in alignment with the International Performance Measurement and Verification Protocol (IPMVP) building upon existing requirements for various Save on Energy programs.

The M&V Procedures include a reference – the [Measure Reference Manual](#) – that provides deemed *EE capacity* values (i.e. deemed peak demand savings) for common *EE measures*. Prospective auction participants can also seek to have IESO recognize deemed *EE capacity* values for measures not listed in the Reference Manual by submitting a measure substantiation sheet with the [EE Resource Plan template](#), as described in the [M&V Procedures](#).

All prospective auction participants must provide high-level information on their planned M&V approach for IESO review prior to the auction as part of the [EE Resource Plan template](#). Successful auction participants will be required to provide full IPMVP-compliant M&V plans after the auction but before the start of their first *obligation period*.

Successful auction participants will be required to submit M&V reports that align with the approved M&V plan for each resource after each seasonal *obligation period* that they have an *EE capacity obligation*.

To learn more about the EE Auction Pilot, visit the IESO website. For additional questions contact eeauctionpilot@ieso.ca