

IESO Stakeholder Engagement

February 10, 2019

OPG Comments –**MDAG Increasing Competition in Ancillary Services through Regulation Service Procurement**

OPG provides the following comments on the Market Development Advisory Group (MDAG) Regulation Service Procurement materials presented at the January 21, 2020 meeting.

1. Feedback on Previous Procurements for Regulation Service

Proponents need to be prepared to deliver on their proposals and this can be achieved through posting a sufficient level of security. This is especially crucial for new-build generation facilities, or for adding Regulation capability to existing generation facilities. A good model to follow is the LRP I and II security requirements which included Bid Security, followed by Performance and Completion Security,

In the 2017 Regulation Services RFP, two new-build energy storage facilities were offered contracts. Both facilities did not achieve commercial operation, the contracts were terminated and it does not appear that any new Regulation contracts were awarded to other providers. In the upcoming procurement, if this situation were to reoccur, would the IESO consider offering a contract to the next qualified proponent in the list which would encourage suppliers to continue to develop and submit proposals.

2. Enabling Revenue Certainty for New Entrants

A longer forward period is needed to enable new facilities to bid on all three tranches and have the greatest potential for a contract for more than one year. It generally takes a minimum of 2 years (or more depending on the technology type) to build a new generation facility. Assuming it takes a new facility two years to achieve in-service, with the proposed schedule for award in the fall of 2020, the earliest a new facility would be commissioned is the fall of 2022 which would result in a bid submission for only the 2023 period. A one year contract would likely not provide enough incentive for proponents to develop a new generation facility. Yes, the facility could wait until the next procurement but the quantity procured, competitions with other products, such as capacity, and the environment may be different and perhaps less favourable.

In order to provide revenue certainty and / or enable suppliers to hedge their risks, the commitment periods for Regulation and the Capacity Auction should be aligned to be sequential. If a supplier is successful in Tranche 1 and 3 but not Tranche 2 of the Regulation procurement, they should have the opportunity to participate in the Capacity Auction in that intermediary year. Similarly if the entity cleared the Capacity Auction in one year but not the next they should be able to participate in the Regulation procurement, if qualified. This would require the award for contracts or auctions to be known prior to the closure of the bid submission for the other procurement.

3. Transition from a Procurement based to a Market based Product

It appears that Regulation service will be procured through an RFP process. Has the IESO considered an auction format similar to the current Capacity Auction? This approach would accelerate the transition to a market based product.

The 2017 Regulation procurement was based on providing proponents with a fixed availability payment regardless of how the system was actually operated in response to the AGC signal. This required proponents to assume a certain operating profile and include these costs in their bid price for availability. This type of structure requires proponents to assume a high level of operational risk, which will increase bid prices as proponents will tend to assume a conservative operating profile.

A means to lower this risk and reduce availability bid prices would be for the IESO to provide a specification on how the facility is forecast to be operated (e.g. maximum number of cycles per day) or include in the design a variable payment component (when utilized) in addition to the availability payment. The latter approach could have proponents submit offers into the day-ahead process in addition to the existing parameters (capacity to be supplied, min and max limits for the Regulation range and ramp rates). Suppliers would be scheduled based on their offers as well as the above mentioned existing parameters. These resources would then be included in the Dispatch Scheduling and Optimization (DSO) engine similar to the scheduling process today. This approach would make it easier for the IESO to transition to multi-optimization of Regulation with operating reserve and energy in the future.

We look forward to future discussions.

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