

ONTARIO ENERGY ASSOCIATION

IESO RESOURCE ADEQUACY FRAMEWORK FEEDBACK

OCTOBER 20, 2020

To shape our energy future for a stronger Ontario.



Ontario Energy Association

ABOUT

The Ontario Energy Association (OEA) is the credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA takes a grassroots approach to policy development by combining thorough evidence-based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

Together, we are working to build a stronger energy future for Ontario.

The recommendations contained in OEA papers represent the advice of the OEA as an organization to the provincial government. They are not meant to represent the positions or opinions of individual OEA members, OEA Board members, or their organizations. The OEA has a broad range of members, and there may not always be a 100 percent consensus on all positions and recommendations. Accordingly, the positions and opinions of members and their organizations may not be reflected in this report.

PRIORITIES

The Ontario Energy Association (OEA) welcomes the opportunity to provide feedback on the IESO's renewed Resource Adequacy initiative. Based on the September 24th stakeholder engagement, the OEA has the following key priority comments on the draft framework presented.

1. OEA SUPPORTS THE HIGH-LEVEL DRAFT FRAMEWORK

The OEA commends the IESO for being responsive to stakeholders which is reflected in the draft framework outlined at the September 28th stakeholder engagement. The draft framework generally reflects important key elements put forward in July by an alliance of Ontario industry associations [the Alliance]¹ representing key interested stakeholders entitled *A Pragmatic Resource Adequacy Strategy For Ontario* [see Appendix A]. In particular, the proposed short-, mid- and long-term procurement approaches will allow the IESO to optimize outcomes for consumers by procuring resources that best meet varied system needs. While much detail needs to be worked out with stakeholders, at a high level the OEA supports the general framework.

2. TRANSPARENCY MUST BEGIN NOW

In order for stakeholders to have confidence in a new Resource Adequacy framework, the IESO must begin immediately to meet a higher standard for transparency in decision-making. Otherwise, there can be no confidence among stakeholders that resource procurement will be transparent just because a new Resource Adequacy framework has been implemented. Some recent actions by the IESO provide examples of inadequate transparency that undermines confidence in Ontario's electricity market and in Ontario's resource procurement system.

For example, the lack of transparency in the decision to move forward with a sole-sourced contract for capacity in the northwest does not instill confidence the new Resource Adequacy framework will not be upset. The IESO had not publicly identified a concern regarding potential low hydro-electricity capacity in the northwest prior to the publication of the Market Manuals that outlined a deal had been reached with Manitoba Hydro. This is a concern with regards to both transparency and governance.

The "IESO Report & Recommendations RE Consultations with the Advisory Group on Market Rule Governance & Decision-Making Processes" dated November 23, 2018 outlines concerns raised by market participants with regards to Market Manual transparency and opportunities to participate in the market manual process. In addition, the report recommendations on transparency were intended to create guidelines related to ensuring market manual changes that have significant impact on the market, if implemented, are stakeholdered either through formal engagement initiatives or informational Technical Panel review. These proposed Market Manual updates may have

¹ Members of the Alliance include: Advanced Energy Management Alliance (AEMA); Association of Power Producers of Ontario (APPrO); Canadian Renewables Energy Association (CanREA), the "Consortium"; Ontario Energy Association (OEA); and Ontario Waterpower Association (OWA).

met the hurdle to be stakeholdered with at least being a topic for the Technical Panel to discuss.

Another example is the recent decision to acquire zero capacity for the winter season of the upcoming Capacity Auction. It was a complete surprise to all market participants when the pre-auction report was published on September 1, 2021. The IESO Reliability Standards Review presentation on August 26, 2020 did identify changes that were being reviewed and suggested changes that may impact future capacity requirements but did not touch on the capacity requirements for the upcoming auction that would be published six days later. This would have been a good opportunity to communicate that while historically summer and winter capacity DR procurements were relatively similar the upcoming auction will introduce a significant departure as the winter season would require zero capacity.

For the proposed Resource Adequacy framework to be successful there cannot be a reoccurrence of this type of surprise. Market participants must have faith the process will be transparent with timely communication.

3. PUBLICLY FORMALIZE PROCESS FOR UNSOLICITED PROPOSALS

There may be circumstances where projects are brought forward to the government and the IESO that either do not fit into the Resource Adequacy framework, or purport to have societal benefits that the Resource adequacy framework is not designed to consider. For example, Ontario governments have a long history of directing procurements because they have economic benefits. Government have also intervened for climate change and carbon reduction objectives. The OEA acknowledges that the Ontario government will always have a role in providing policy direction to the energy sector, and that sometimes this may result in consideration of specific projects that meet government objectives outside of straight electricity resource adequacy.

It would greatly enhance confidence in a Resource Adequacy framework if the IESO and the provincial government could work together to establish clear and transparent guidelines for the treatment of unique one-off or unsolicited proposals that might displace resources working within the framework. In particular, the use and timely public release of independent cost-benefit analysis to evaluate such proposals should be required. It is important to evaluate whether the proposed social/economic benefits of any project are most cost effectively achieved solely through the electricity system.

Given Ontario's history of government directed procurement, a clear and transparent process for unsolicited proposals is a necessary companion to the Resource Adequacy framework.

ANSWERS TO CONSULTATION QUESTIONS

The following are responses to the questions posed in the September 28th virtual engagement.

“The IESO proposes to use the MRP guiding principles to guide the discussion with stakeholders on the development of a high-level Resource Adequacy framework. Are there other principles that should be considered throughout this discussion?”

The Market Renewal Program principles (Efficiency, Competition, Implementability, Certainty and Transparency) along with the IESO’s overarching primary policy of maintaining reliability are sufficient to guide the stakeholder engagement. The descriptions for each principle may need to be amended to capture the unique requirements of resource adequacy.

“Do these three capacity acquisition timeframes (commitment and forward periods) provide sufficient options for meeting the needs of your resource type?”

The three timeframes (short, mid and long-term) are appropriate and meet the business needs of OEA member resources. The focus should be on the details of the actual procurement mechanism, versus defining what resources should fit into each timeframe. The decision to participate in each mechanism should be left to the Market Participant based their own internal risk profile. . The framework should provide a platform for the IESO and participants to effectively develop guidelines on participation to ensure competitive processes acquire resources in the timeframes to meet reliability requirements cost effectively.

Which option(s) are most suited to your resource type?

OEA members have resources that would participate in all three timeframes. A primary concern for each resource type is the ability for the participant to choose the timeframe that meets the business requirements for their resource. Flexibility in participation will produce increased competition for each timeframe and provide a more efficient market.

Based on timing when various mechanisms are going to be available, do you see timing gaps when a resource needs a mechanism before that mechanism is ready?

Resources that are or will be participating in the capacity auction process would benefit from expediting the resource adequacy engagement. For these resources knowing the procurement structure will provide them ability to better plan their long-term business. Therefore, yes there is a timing gap that would benefit from moving this initiative forward as quickly as possible.

What needs to be considered in future engagement phases to develop the details of the mechanisms in the framework?

What other areas need to be discussed with stakeholders to operationalize the framework?

The engagement framework as laid out provides a good starting point for the conversation. The details of each procurement mechanism will evolve through the process with a focus on each of the guiding principles.

APPENDIX A

A PRAGMATIC RESOURCE ADEQUACY STRATEGY FOR ONTARIO

OBJECTIVE

A pragmatic resource adequacy strategy to ensure Ontario's electricity supply needs are met safely and reliably at lowest possible cost to customers recognizing Ontario's specific electricity market characteristics

FACTORING IN SPECIFIC ONTARIO SUPPLY

- **Rate-Regulated Generation:** OPG's baseload generation (i.e., nuclear and applicable hydroelectric) are rate-regulated by OEB, meeting supply needs
- **Embedded Hydro Generation:** Embedded hydroelectric generation are generally not practical to be wholesale market participants, and in addition to meeting supply needs are recognized as having additional benefits (i.e., environmental, public safety, etc.)
- **Nuclear Generation:** Bruce and Darlington refurbishment programs continue as contracted and rate-regulated generation, meeting supply needs

KEY ELEMENTS OF THE STRATEGY

1. ROBUST, FREQUENT, TRANSPARENT POWER SYSTEM PLANS

- a. Clear and technical specifications of Ontario-wide and regional power system and supply needs, predicated on supply attributes with risk assessments of applicable resources' ability to meet needs
- b. Ontario system planning data and information must meet 'best-in-class' standards to maximize transparency and interest in opportunities for investment and competition

2. CAPACITY AUCTIONS – VOLUNTARY, SHORT-TERM, BALANCING

- a. IESO administered auctions meeting short-term supply needs based on power system plans
- b. Optionality for resource participation – to greatest extent possible, auctions to meet supply needs should be competitive, flexible (e.g., on term), and resource agnostic

3. CONTRACTS – VOLUNTARY, MID- TO LONG-TERM, ENSURING INVESTMENT

- a. IESO administered procurement processes, as needed, resulting in executed contracts for resources (existing or new) required to meet supply needs based on power system plans over period longer than short-term
- b. Optionality for resource participation – to greatest extent possible, contracting processes to meet supply needs should be competitive, flexible (e.g., on term), and resource agnostic

4. ENERGY AND ANCILLARY SERVICES MARKET PRICES AND CAPABILITY TO SUPPLY

- a. Energy and ancillary services wholesale market prices should reflect actual demand/supply conditions/value
- b. Resources able to supply energy and ancillary services permitted to do so within competitive wholesale market, meeting supply needs in conjunction with other mechanisms (e.g., capacity auctions, contracts)

5. ACCOUNTING FOR DERs

- a. DERs (e.g., gas-fired, combined heat and power, solar, wind generation, energy storage, demand response, etc.) that are economic and affordable require a development and integration framework to cost-effectively and reliably help meet supply needs
- b. Need for regulatory framework review (i.e., regulated vs. unregulated, definition of customer, cost allocation across customers, rate design, etc.) and wholesale market design/rules to help determine cost-effective and reliable development and integration of DERs, including future roles of LDCs, DER suppliers, IESO, and OEB

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Let's unravel complex energy challenges, together.