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Dear Leonard,

This submission responds to the Independent Electricity System Operator (IESO) November 18, 2020 presentation, *Resource Adequacy Stakeholder Engagement*<sup>1</sup>, that proposed a high-level Resource Adequacy Framework within the IESO-Administered Markets (IAM).

Power Advisory LLC has coordinated this submission on behalf of a consortium of renewable generators, energy storage providers, and industry associations (the “Consortium”<sup>2</sup>).

The Consortium supports the IESO’s proposed high-level Resource Adequacy Framework (the “Framework”), and understands that IESO will bring forward this Framework to the IESO Board of Directors meeting in December 2020 for approval. The Consortium is particularly pleased with IESO’s stakeholder engagement towards determining a workable Framework in conjunction with market participants (MPs) and stakeholders. Based on the components of the Framework, it is clear that IESO has incorporated recommendations made by MPs and stakeholders to date.

The subsections below provide specific comments and recommendations regarding key components within the Framework, recommendations on future stakeholder engagement throughout 2021, followed by responses to IESO questions posed during the November 18 presentation.

### **Comments and Recommendations on IESO Proposed High-Level Resource Adequacy Framework**

The Consortium offers the following comments and recommendations to refine specific components within the Framework.

- A combination of Capacity Auctions (CAs) and Request for Proposals (RFPs)/contracts should be used to meet mid-term resource adequacy needs, rather than specifying CAs *or* RFPs/contracts – flexibility should drive which resource mechanisms may be utilized in the future to meet Ontario’s resource adequacy needs, and MPs and prospective developers should be afforded options to

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<sup>1</sup> See <http://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/Resource-Adequacy-Engagement>

<sup>2</sup> The members of the Consortium are: Canadian Renewable Energy Association; Axium Infrastructure; BluEarth Renewables; Boralex; Capstone Infrastructure; Cordelio Power; EDF Renewables; EDP Renewables; Enbridge; ENGIE; Evolgen (by Brookfield Renewable); H2O Power; Kruger Energy; Liberty Power; Longyuan; NextEra Energy Canada; Pattern Energy; Suncor; and wpd Canada.

choose which resource adequacy mechanism(s) best meets their needs to help maintain and/or develop resources to meet Ontario's resource adequacy needs

- If the design of CAs were to evolve to include multi-year commitments, the use of CAs should not negate the use of RFPs/contracts towards helping to meet mid-term resource adequacy needs, and the determination to evolve CAs in this way (or not) should be made through stakeholder engagement meetings in 2021
- When RFPs/contracts are used to meet mid-term resource adequacy needs, they should not be confined to only procuring unbundled capacity, so as to afford flexibility to procure capacity alongside other electricity products (e.g., ancillary services, etc.) as needed to help meet Ontario's resource adequacy needs and other objectives (e.g., Environmental Attributes (EAs), etc.), as the case may be
- Defining the scope, structure, and design of RFPs/contracts as a resource adequacy mechanism used to help meet mid-term and long-term resource adequacy needs should be decided upon through stakeholder engagement meetings in 2021, so as to ensure that MPs and prospective developers receive timely clarity and transparency regarding the scope of all potential resource adequacy mechanisms within the Framework – this will help ensure that timely investment decisions will be made regarding continued operations of existing facilities and development of new projects in accordance with meeting Ontario's resource adequacy needs
- Programs (e.g., standard offers, etc.) should be specified within the Framework, as facilities and projects owned/operated by non-MPs provide resource adequacy within Ontario, as it may not be economically and/or technically feasible for these facilities and projects to become MPs so as to participate within CAs or compete against larger resources within RFPs/contracts<sup>3</sup> in addition to participating within the wholesale energy market

### **Resource Adequacy Framework Stakeholder Engagement in 2021**

Building on the high-level Framework, the Consortium agrees with IESO that additional stakeholder engagement meetings in 2021 will be required to define the details within the Framework.

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<sup>3</sup> For example, embedded generators (e.g., hydroelectric and solar generators) do not have the ability to enter into arrangements with Local Distribution Companies (LDCs), as Ontario's LDCs are not structured like Load-Serving Entities (LSEs) with specific resource adequacy obligations. Further, explicit statutory requirements do not exist to ensure these embedded generators are afforded with just and reasonable rates for their electricity supply (e.g., similar laws like the Public Utilities Regulatory Policies Act (PURPA) in the U.S. do not exist within Ontario, where PURPA mandates embedded generators meeting the definition of Qualified Facilities to receive a rate or contract price from respective LSEs, with regulatory oversight). Therefore, IESO should continue fulfilling the role as the de facto LSE for embedded generators within Ontario, at least until Ontario's electricity market may evolve where LDCs and/or other buy-side entities have potential obligations or abilities to procure supply (e.g., contract with generators) on behalf of customers.

The Consortium agrees with IESO's proposed Major Resource Adequacy Discussion Areas to be consulted on with stakeholders in 2021, as listed within the November 18 presentation. The following comments listed below provide recommendations regarding key details within the Framework that should be worked through, then decided on, within stakeholder engagement meetings in 2021.

- Within the General Framework Details category, the Consortium recommends that the following components within the Framework will require specific streams of stakeholder engagement
  - Potential CA design enhancements and eligibility for participation within CAs relative to other resource adequacy mechanisms
  - Scope, structure, and design of RFPs/contracts, so as to use 'lessons learned' from previous RFPs/contracts used within Ontario and within other jurisdictions towards improving the structure and design of RFPs/contracts going forward, including eligibility for participation within RFPs/contracts relative to other resource adequacy mechanisms
  - Scope, structure, and design of specific programs (e.g., standard offers, etc.), so as to use 'lessons learned' from previous programs used within Ontario and within other jurisdictions towards improving the structure and design of programs going forward
  - Define any circumstances and conditions where sole source negotiations may be appropriately used towards executing contracts (e.g., Reliability Must-Run (RMR) contracts), including any framework to assess unsolicited projects, and establishment of principles (e.g., transparency, etc.) when sole source negotiations will be used to execute contracts
  - Reforms to governance, decision-making, and recourse framework within IAM relating to resource adequacy, as Appendix A clearly shows recent examples (e.g., previous Incremental Capacity Auction (ICA) initiative) and resource adequacy mechanisms (e.g., December 2020 CA, RMR contracts) that should be kept in mind when developing details within the Framework<sup>4</sup>
- Within the Transition category, the Consortium recommends that IESO clearly define what is meant by "transition", which existing facilities and projects will be included within this category, what resource adequacy mechanisms may be used within the Transition category, and identify how future resource adequacy needs may change if any of the identified facilities and/or projects

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<sup>4</sup> Needed reforms to the governance, decision-making, and recourse framework within IAM are broader than resource adequacy, therefore distinct stakeholder engagement outside of the Resource Adequacy Stakeholder Engagement is also recommended. However, concerning resource adequacy, this issue still requires specificity within the General Framework Details relating to developing details within the Framework.

are procured<sup>5</sup> – further, any projects that may be procured through unsolicited proposals should be disclosed

### **Responses to IESO Questions from November 18, 2020 Resource Adequacy Webinar**

Below are the questions posed by IESO during the November 18 webinar followed by the Consortium's responses.

1. *Will the key discussion areas proposed cover the major areas that need to be discussed with stakeholders to develop and operationalize the Framework? Are there any major areas missing?*

On balance, the key Discussion Areas proposed cover the main areas that need to be discussed then developed and operationalized within the Framework.

As listed above, the Consortium recommends more specificity within the Discussion Areas to include:

- Potential CA design enhancements and CA eligibility;
- Scope, structure, and design of RFPs/contracts, including eligibility and linkages to other Framework components;
- Add scope, structure, and design of specific programs for non-MPs, including eligibility and linkages to other Framework components;
- Transparency and scope of when sole source negotiations may result in contracts (e.g., RMR contracts, etc.);
- Needed reforms to governance, decision-making, and recourse within IAM relating to resource adequacy; and,
- Specific definition of the Transition category, including clarity and transparency of what resources will fall into this category (including any unsolicited proposals), associated resource adequacy mechanisms to procure these resources along with rationale, and any changes to Ontario's resource adequacy needs if resources are procured within this category.

2. *Are there key discussion areas that should be prioritized or discussed before others?*

Because of linkages and the inter-connectivity of most areas, components, and features within the Framework, many of the discussion areas need to take place in parallel and therefore cannot be easily prioritized, ordered, or ranked.

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<sup>5</sup> For example, on November 18, 2020, IESO announced that the Lennox generation station (approx. 2,100 MW) will maintain operations post 2022 contract expiry through a contract extension or new contract (not clear which one). IESO should disclose if there are other resources that are being considered for contract extensions or new contracts as part of the Transition category.

However, the Consortium strongly recommends that resource adequacy mechanisms available to generators with expiring contracts, including the scope, structure, and design of RFPs/contracts, be addressed in 2021. This is needed because generators and prospective developers will require clarity and transparency of resource adequacy mechanisms, so as to make timely investment decisions vis-à-vis investment opportunities across multiple global jurisdictions, including maintenance of operating generators.

The Consortium will be happy to discuss the contents of this submission with you at a mutually convenient time.

Sincerely,



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Managing Director  
Power Advisory LLC

cc:

Chuck Farmer (IESO)  
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Jeff Hammond (Longyuan)  
David Applebaum (NextEra Energy)  
John O'Neil (Pattern Energy)  
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## Appendix A – IAM Governance, Decision-Making, and Recourse: Resource Adequacy Examples of Issues and Needed Reforms

	<b>Examples Relating to Resource Adequacy</b>			
	<b>ICA</b>	<b>CA Winter Capacity – Dec 2020</b>	<b>Manitoba Hydro RMR Contract</b>	<b>Consortium Observations and Commentary</b>
<b>Present Process/Steps within Governance, Decision-Making, and Recourse within IAM</b>				
<b>Pre-Stakeholder Engagement / Engagement Warranted</b>	None – no engagement whether ICA preferred/sole resource adequacy mechanism  Previous attempts to design Capacity Market had failed	None – no engagement prior to announcing 0 MW winter capacity target	None – no engagement prior to determining need for RMR contract	Lack of transparency and inclusiveness, as IESO solely made preliminary and directional decisions  Not clear which stakeholders, if any, were engaged towards IESO making final decisions
<b>Stakeholder Engagement / Consultation</b>	Yes – many engagement meetings leading to draft High-Level Design (HLD)  Majority of stakeholder submissions did not fully support ICA	Limited – only after winter capacity target announced, IESO explained rationale	None – no engagement planned to disclose why RMR contract with Manitoba Hydro is preferred solution	Lack of transparency and inclusiveness, after IESO solely made preliminary/directional decisions, IESO continued to not formally engage stakeholders (e.g., RMR contract)  Lack of effectiveness and efficiency, as months/years of engagement meetings (including costs to IESO, MPs, stakeholders) towards not progressing past draft ICA HLD – even though it was clear majority of stakeholders did not fully support ICA
<b>Amendments to IESO Market Rules / Market Manuals</b>	None – ICA abandoned due to lack of stakeholder support	None – amendments to IESO Market Rules not required  Yes – amendments to applicable Market Manual (listing capacity targets)  No details specified in any Market Manuals, re: how capacity targets will be determined	None – IESO has authority under Market Rules to execute RMR contracts	Questions regarding criteria of when initiatives need to undergo stakeholder engagement, along with framework of engagement relating to governance, decision-making, and recourse  When amendments to IESO Market Rules are not required, only recourse available to MPs and stakeholders is dispute resolution within IESO Market Rules or litigation through court
<b>IESO Board of Directors (BOD) Approval</b>	Not clear – presumably IESO BOD endorsed draft HLD	Not clear – presumably IESO BOD endorsed winter capacity target	Not clear – presumably IESO BOD endorsed RMR contract, including discussion of options	Lack of transparency, as MPs and stakeholders have little visibility regarding IESO BOD agenda items, IESO Management recommendations/supporting materials, and discussions
<b>OEB Oversight / Approval</b>	None – Ontario Energy Board (OEB) only has some oversight over amendments to IESO Market Rules	None – OEB only has some oversight over amendments to IESO Market Rules	None – OEB only has some oversight over amendments to IESO Market Rules	Lack of effectiveness, as OEB does not have oversight regarding many aspects of IAM (i.e., OEB has oversight over IESO Business Plan/revenue requirement, amendments of IESO Market Rules but does not exercise full authority, and somewhat through Market Surveillance Panel (MSP) investigations and outcomes of investigations)