

Feedback Form

Resource Adequacy webinar – January 26, 2021

Feedback Provided by:

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Following the January 26, 2021 engagement webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following items discussed during the webinar. Background information related to these feedback requests can be found in the presentation, which can be accessed from the [engagement web page](#).

Please submit feedback to engagement@ieso.ca by February 17, 2021. If you wish to provide confidential feedback, please submit as a separate document, marked "Confidential". Otherwise, to promote transparency, feedback that is not marked "Confidential" will be posted on the engagement webpage.

Feedback Requested

Topic	Feedback
Does the proposed process to set acquisition targets and select competitive mechanisms align with stakeholder needs?	Northland welcomes the additional clarity on system needs and procurement targets that will be summarized in the new Annual Acquisition Report (ARR).
Is there any additional information that the IESO should consider including in the Annual Acquisition Report (AAR) to help participants make investment decisions?	Procurement targets and the product description coming out of the AAR must be precise and binding if participants are to rely on them to make investment decisions and prepare for upcoming procurements.

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<p>What are the timing considerations from a stakeholder perspective with respect to the AAR?</p>	<p>Timing will be a key determinant as to which resources can meet the stated need. Decisions on AAR timing and the forward period length need to be made with due consideration to these realities.</p> <p>Assets that will participate in the medium-term mechanism could require between 6 months and 2 years to plan and complete major maintenance. For uprates, depending on the nature of the uprate and whether new/amended permitting is required (e.g. environmental), this process could take multiple years to fully implement.</p> <p>The IESO indicated that “The report will focus on the needs that will require action over the next 1-3 years and provide a high-level overview of possible acquisitions beyond that timeframe”. Any needs presented within that 1-3-year timeline should be binding, and directly lead to procurement through the chosen mechanism. The focus on the first 1-3 years would not provide sufficient information to make a binding decision on a procurement through the long-term mechanism.</p> <p>If a resource qualified for the Medium-Term procurement option (e.g. three to five year commitment) and it fails to receive a commitment, that resource should still be eligible to participate in the annual capacity auctions to have the opportunity to recover at least some of its costs.</p>

Are there any concerns with the proposed Capacity Auction enhancements?

In its current design and implementation, the capacity auction is an insufficient mechanism to maintain existing generating capacity and will be an insufficient mechanism to maintain existing capacity as assumed in the Annual Planning Outlook (APO).

- The current design is suitable for resources such as demand response, which has little to no fixed operating costs or capital expenditures (such as major maintenance) associated with providing capacity.
- Without incorporating mechanisms to value effective capacity such as UCAP, the **capacity auction delivers results that fail to recognize the value of resources that can achieve high effective capacities.** The IESO should implement UCAP by the next auction (December 2021) to properly value the effective capacity from existing generating facilities.
- The variability of the capacity target, including the removal of any capacity for this winter, is not a workable solution for generators. **Generators don't have an option to just procure six months of service for other necessary services like gas transportation and storage services or O&M support services.**

In addition to the enhancements already identified by the IESO for the December 2021 auction, Northland recommends evolving the auction to reflect the commercial reality of local generation resources more appropriately.

- For existing facilities to continue to operate, some may require capital expenditures (e.g. rotor replacement), while others may require major maintenance. Without properly valuing the longer-term value of generating facilities (natural gas, wind farm, solar, etc.) by only considering short term costs to maintain these facilities will not result in cost recovery for all resources. This

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	<p>is at odds with the IESO’s reliance on all existing resources to meet future needs.</p> <ul style="list-style-type: none"> <li data-bbox="829 289 1524 562">– The IESO states that “It will be important to provide long-term certainty of the viability of this mechanism for the participants to ensure they will continue to make investments”. Capital investments are not likely if resources are only competing in annual capacity auctions with no certainty that investments can be recovered. <li data-bbox="829 604 1524 919">– The IESO should consider applying a minimum clearing price for future auctions. While a low clearing price suggests value for ratepayers, a price too low could have unintended consequences where certain resources are priced out of the market which could impact longer-term reliability and higher system costs (i.e. cost to replace capacity in the future). <p>Northland suggests that the IESO engage in conversations with off contract facilities to better understand the operating costs and capital investments required to continue operating and providing the reliability the IESO is seeking.</p>

General Comments/Feedback

The IESO’s *Resource Adequacy Engagement* will shape the future of resource procurement in Ontario for the coming decades. Northland Power appreciates the opportunity to provide comments on this important initiative.

In general, Northland Power supports the vision laid out by the IESO at its January 26, 2021 *Resource Adequacy Engagement* meeting. The IESO’s approach to developing a procurement framework represents a reasoned and actionable way forward, and Northland Power is pleased to contribute to that process.

The IESO identified competition and market liquidity as essential elements needed to realise the benefits of its proposed procurement mechanisms. To deliver on those benefits, the IESO acknowledged that, “**certain steps will be necessary that at first glance may seem to be**

counterproductive but are intended to facilitate increased competition in the future.”¹

This holistic approach to procurement, with a view to the future, is reasonable given the deficiency of the current mechanisms, and the transition period the sector finds itself in.

Ontario needs to transition a group of off-contract resources to a market-based procurement mechanism. While Northland Power generally supports the IESO’s long-term vision for resource procurement, those proposed mechanisms are not yet in place. During the intervening transition period, the design of existing mechanisms should support the retention of off-contract resources, so that they may compete in future mechanisms. As the IESO notes, **“Liquidity in the market is particularly important considering the dominance of a single regulated generator. Losing smaller assets will not only impact the competitiveness of acquisition mechanisms but also impact the energy and ancillary services markets”.**²

Beyond their competitive value, off-contract resources are also needed to retain reliability throughout the upcoming decade. As documented in the IESO’s *Annual Planning Outlook (APO)*, “Without the continued availability of existing generation and demand-side resources post contract/commitment, needs emerge in the winter of 2022/2023”.³

The Capacity Auction is currently the only mechanism in place to compensate off-contract resources for their capacity, and ensure they receive sufficient cost recovery to remain in the market. **Unfortunately, for resources that incur significant fixed operating and maintenance costs to maintain availability, the Capacity Auction fails to provide sufficient revenues to cover these costs.**

One contributing factor is the Capacity Auction’s obligation period length, which is minimal. The Capacity Auction procures capacity in 6-month increments, with no consideration for capacity needs beyond that period. This limitation was evident in the December 2020 auction, where the IESO procured capacity for the Summer 2021 period, but cancelled the auction for the Winter 2021/22 period, citing no capacity need. For off-contract resources looking to participate in procurement mechanisms for the Summer 2022 and beyond, they were left with 6-months of potential revenue for a year’s worth of operations and costs.

While the IESO’s proposed medium-term procurement mechanism may provide sufficient cost recovery for these resources down the road, the current Capacity Auction is insufficient. Under the backdrop of an emerging capacity need where all existing off-contract resources will be relied upon, more needs to be done to address this deficiency.

Northland Power is encouraged by the IESO’s commitment to evolving the Capacity Auction, e.g. a minimum capacity procurement target for each auction, ensuring at least some capacity is procured each period. **However, given its short-term nature, no tweak to the Capacity Auction will make it sufficient to support off-contract resources that require significant capital investments. Nonetheless, changes to the Capacity Auction that help partially support these resources will ensure that more of their costs are recovered through a competitive**

¹ As recently stated by the IESO’s Leonard Kula (*Vice President Planning, Acquisition and Operations, and Chief Operating Officer*), in his opening remarks at the November 2020 *IESO Stakeholder Engagement Days*

² See slide 63 of the IESO’s January 26, 2021 presentation to the *Resource Adequacy Engagement*.

³ See page 38 of the IESO’s December 2020 *Annual Planning Outlook*.

and transparent market mechanism, lessening the recovery needed through other means.

To that end, the IESO may consider evolving the Capacity Auction in a manner similar to that of the DR Auction. Given the impending capacity crunch, this means supporting existing resources in the market, so that they may compete in future competitive mechanisms. Northland Power looks forward to further discussions with the IESO on the future of competitive procurement in Ontario, and how best to transition existing off-contract resources to that new environment.