

## **Market Surveillance Panel**

### **Comments on the IESO Presentation: Resource Adequacy Engagement (March 22, 2021)**

**April 21, 2021**

On March 22, 2021, the IESO provided an update to stakeholders on the Resource Adequacy Engagement, presenting more details on the Resource Adequacy Framework, the Annual Acquisition Report, and plans for Capacity Auction enhancements.

The Panel is broadly supportive of stakeholder comments submitted regarding the Annual Acquisition Report and Qualified Capacity process. The increased transparency that the IESO has planned for the Annual Acquisition Report is consistent with one of the themes of the Panel's recommendations in Monitoring Report 33, which was improving the clarity of communications to stakeholders regarding capacity needs. These comments focus on the proposed Capacity Auction enhancements and specifically the issue of resource performance.

The poor performance of HDR resources in July 2020 should come as no surprise to the IESO. Despite dismal test results, the IESO has not been focused on the performance of HDR resources, consistently rewarding them with capacity payments in six annual auctions. A Qualified Capacity process, as proposed by the IESO, is essential to align target auction capacity and the needs identified in planning assessments. Without Qualified Capacity, some HDR resources will continue to receive credit for capacity they evidently cannot provide. Based on the timelines communicated, no process will be in place for the 2021 auction to recognize the actual performance of HDR resources. It is unacceptable that the IESO continues this Capacity Auction – the majority of which is HDR resources – when they expect a substantial share of HDR capacity to be unavailable when called upon. This is not fair to the electricity customers who will pay for this unavailable capacity while being unnecessarily exposed to higher risk, nor to the HDR resources who have made the effort to deliver on their commitment.

The proposals to improve market performance address important concerns with the current auction such as the limited consequences for poor resource performance.

The Panel believes that the Capacity Auction's rules and processes for activation, testing, qualifying, paying, and charging penalties should be assessed holistically. All of these elements need to work together to ensure that all participants, including ratepayers, are treated fairly in the acquisition and utilization of the required capacity to ensure adequate, cost effective reliability. Market participants' behaviour, including auction offers and subsequent performance during the obligation period, is influenced by the incentives and disincentives that they face. The risk of not being able to deliver the committed product is more likely to occur if these incentives are misaligned, especially if the payments available for poor performance are greater than the penalties they may face. Ineffective performance incentives for capacity suppliers can lead to inefficient outcomes, unnecessary costs, and even reliability issues.

The timing and magnitude of consequences compared to payments is also important. While it is quite appropriate for poor performance to impact participants' future Unforced Capacity values, penalties for failing on current commitments should also be immediate and large enough to eliminate opportunities for short-term gain in the auction period where the poor performance occurred. This is also important to provide the participants with a clear and immediate incentive to improve poor performance and to

make all efforts to implement changes to meet subsequent activations within the current auction period. Lack of sufficient and timely penalties may lead failed participants to continue to take their chances of gaining an overall net economic benefit while exposing the system to undue reliability risk. It is, after all, the delivery of the committed capacity when needed/activated to achieve the required reliability, that is the real objective, not the collection of penalty fees.

Charges should be calculated to recognize that some resources are utilized more frequently than others. For example, infrequently dispatched resources face less risk from the dispatch charge, which is assessed each time a resource fails to follow a dispatch instruction. Consider assessing performance over an entire obligation period to achieve a more equitable and effective treatment of these different situations.

Finally, compliance enforcement actions with individual participants can be quite contentious, time consuming, and resource intensive unless rules and consequences for their infringement are clear, simple to understand, automatic, and universal.