

Stakeholder Feedback and IESO Response

Resource Adequacy – March 22, 2021 Webinar

Following the March 22, 2021 Resource Adequacy engagement webinar, the Independent Electricity System Operator (IESO) invited stakeholders to provide feedback on the materials presented.

The IESO received feedback from:

Advanced Energy Management Alliance

Atlantic Power

Capital Power

Consortium of Renewable Generators, Energy Storage Providers, and the Canadian Renewable Energy Association

Energy Storage Canada

Market Surveillance Panel

Northland Power

Ontario Energy Association

Ontario Waterpower Association

Power Workers Union

This feedback has been posted on the [engagement webpage](#).

Note on Feedback Summary and IESO Response

The IESO appreciates the feedback received from stakeholders. The table below outlines a summary of the feedback received and an IESO response in relation to that feedback.

Concerns Regarding Resource Adequacy Transparency, Decision-making, and Governance

| Stakeholder Feedback | IESO Response |
|--|---|
| <p>The IESO should disclose whether any unsolicited proposals, existing facilities, or proposed projects will be contracted through sole source negotiations</p> | <p>Regarding non-competitive procurements, including any assessment of unsolicited project proposals provided to government, the IESO may share further details on the methodology it uses for analysis on project proposals involved in any such procurements. Any other information that is confidential to proponents can not be shared. The IESO will consider ways to disclose aggregate data on capacity that may be procured through non-competitive procurements.</p> |
| <p>The issue of transparency, governance and decision-making applies to IESO-administered markets (IAMs) more broadly than just Resource Adequacy and should include public recourse</p> | <p>IESO is participating in discussions to inform the government’s Long Term Energy Planning (LTEP) consultation which may result in changes that create or inform the governance and decision-making on IESO’s overall planning and acquisition activities; in addition we are considering what will be needed in the short term for each of the mechanisms and will discuss with stakeholders later this year..</p> |
| <p>Interaction between the enhanced Capacity Auction and mid term RFP should be clearly defined prior to the 2021 Capacity Auction for participants to understand how to compete in different mechanisms in the framework and where to invest their time and money</p> | <p>The AAR will outline how the different mechanisms will work together to meet the identified needs. Participation in the mechanisms will be driven by the identified needs. The IESO recognizes that participants should have as much clarity as possible, especially prior to participating in the auction. However, for greater clarity, the first RFP will likely be for a commitment period starting no earlier than 2026, providing additional time to align the auction and the RFPs over the next few years.</p> |
| <p>IESO needs to make public its analytical framework for assessing costs and benefits to the ratepayer for various resource procurement models and revenue mechanisms</p> | <p>The Resource Adequacy framework and mechanisms were proposed based on their proven ability to acquire resources needed to meet system needs in a competitive and cost-effective manner and on recommendations from stakeholders. The near-term goals of the Resource Adequacy engagement will be to engage with stakeholders to further develop and implement the framework mechanisms.</p> |

Areas Where Further Clarity and Engagement is Requested

| Stakeholder Feedback | IESO Response |
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| <p>IESO needs to engage with stakeholders on the scope and contents of first Annual Acquisition Report (AAR)</p> | <p>As was previously indicated in the Resource Adequacy engagement, the IESO expects to provide information to stakeholders on the target capacity setting process for the different mechanisms and eligibility requirements for participation and supplier obligations. A feedback loop to inform the development of subsequent AARs will begin following the issuance of the 2021 AAR.</p> |
| <p>Concerns were raised that there are no immediate plans to work on long-term mechanism of Resource Adequacy framework</p> | <p>Due to uncertainties in forecasted system needs, the timing and need for use of the long-term Resource Adequacy framework mechanism remains unclear. The IESO will ensure sufficient time is budgeted for discussion of the long-term mechanism with stakeholders prior to its full implementation. The IESO is cognizant of ensuring that any acquisition mechanism reflect realistic forward periods to develop new resources.</p> |
| <p>Concerns were raised that the focus of the Resource Adequacy engagement remains on dispatchable market participants</p> | <p>The Resource Adequacy framework is focused on defining need and the characteristics of that need rather than making resource-specific determinations.</p> |
| <p>Concerns were raised regarding the potential for energy storage to compete in the Resource Adequacy framework mechanisms and how it will be valued after implementation of the Storage Design Project and Market Renewal Program.</p> | <p>Storage resources are already enabled to participate in the Capacity Auction and are enabled to deliver on their capacity obligation in the energy market. The RFP will specify the need and any associated requirements and eligibility criteria. The IESO would be interested in understanding any specific concerns storage resources may have.</p> |
| <p>IESO needs to provide stakeholders with a detailed Resource Adequacy engagement plan.</p> | <p>The IESO has provided a high-level work plan for 2021 engagement activities related to enhancements to the Capacity Auction and will continue to provide an indication of next steps for the broader Resource Adequacy engagement, as far out as possible, at each engagement webinar.</p> |
| <p>Questions and comments were submitted about the potential use of a Capacity</p> | <p>An RFP is a well-proven tool to address approaching mid-term needs. Alternative mechanisms, such as a multi-year capacity auction, could be explored in the future,</p> |

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| Auction with a multi-year commitment as part of the Resource Adequacy framework | but such changes would require working with stakeholders on a robust design. With needs emerging in the near-term, an RFP will be able to better satisfy the immediate need. |
| Information was requested on confidence intervals the IESO has applied to various scenario assumptions. | Where IESO considers scenarios in its forecasts, the IESO will make clear the assumptions that feed into the scenarios. |
| Information was requested to support stakeholders' understanding of how procurement timelines will support the conditions necessary for competition. | Procurement timelines will include the time for notification, forward period, and commitment period. Publication of the AAR is a key step in providing notification of upcoming activities. Specific procurement actions flowing from the AAR will ensure sufficient forward periods to enable robust competition. |

Feedback Related to the Mid-term Resource Adequacy Mechanism

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| General support was indicated for the AAR, Resource Adequacy framework, mechanisms, and IESO's plans to administer an RFP for generators with expiring/expired contracts | The IESO appreciates this feedback and looks forward to continued discussions to operationalize the Resource Adequacy framework. |
| Stakeholders requested clarity on eligibility, specifically whether only off-contract generators, demand response resources and uprates would be eligible Stakeholders expect the IESO to engage on mid-term mechanism requirements such as eligibility, timing, scope and a template contract. | The eligibility requirements will be driven by the identified needs and procurement framework. Once the AAR is published the IESO will work with stakeholders on any resulting procurements. |

Suggestions for Resource Adequacy Framework and Stakeholder Engagement

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| <p>Stakeholders recommended the Resource Adequacy framework timeframes be clearly defined and suggested the following definitions:</p> <ul style="list-style-type: none"> • Short-term – seasonal (i.e. summer and winter), no greater than 12-months • Mid-term – greater than 12 months but less than 7 years • Long-term – greater than 7 years <p>Also a new term, the “notice period”, should be created to indicate the time period between defining system needs and when mechanisms will be launched to meet those needs.</p> | <p>As the RA framework is implemented and needs are clearly identified, the IESO will take this feedback into consideration.</p> |
| <p>Transmission projects need to be explicitly accounted for in the framework</p> | <p>The IESO’s regional and bulk planning products will continue to outline transmission needs and will be an important input into each AAR. The IESO also expects AARs will include a section devoted to specific transmission project considerations related to Resource Adequacy.</p> |
| <p>Programs need to be included in the framework as a complementary acquisition mechanism.</p> | <p>The IESO agrees that further discussion is needed on the role of programs within the framework. These discussions may seek to answer how programs can be contemplated for achieving specific policy goals (e.g. energy efficiency).</p> |
| <p>Interaction between and eligibility for enhanced CA and mid term RFP should be clearly defined prior to 2021 CA for participants to understand how to compete in different mechanisms in the framework</p> | <p>The IESO agrees with this feedback.</p> |
| <p>Current method of specifying system needs in form of capacity needs to evolve to consider all forms of energy resources, their associated carbon impacts, ancillary services and broader societal benefits</p> | <p>The Annual Planning Outlook (APO) endeavours to communicate our system needs as they evolve. Forecasts will continue to change with time and factors that contribute to change will be discussed</p> |

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| | in the narratives of future planning products. |
| Accelerate procurement timeline for acquiring low emitting resources that are known to be needed to meet Ontario's long-term, low-carbon electricity demand | The IESO will continue to communicate reliability needs, and translate these into procurement targets and specify them in the AAR. To the extent that government policy requires the system to become less carbon intensive, the IESO will include these considerations into its acquisition mechanisms. |
| IESO should consider feedback from planning-related engagements to improve process for a transparent procurement framework that enables innovative, integrated solutions | The IESO agrees with this feedback. The creation of the AAR is a major step forward to providing stakeholders with clarity on how planning needs are used to inform procurement decisions. As learnings and outcomes from planning-related and other IESO stakeholder engagements become clear, the IESO will look for additional opportunities to leverage those learnings and outcomes to improve our processes. |

Capacity Auction

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| <p>The Capacity Auction is insufficient as the only short-term mechanism to maintain generation capacity needed to meet demand requirements in 2023.</p> <p>Without multi-year commitments for summer and winter periods, existing generation facilities will not be able to recover annual operating costs nor plan for capital investments to keep facilities viable in medium or long term.</p> | <p>The Capacity Auction has been shown to be an effective mechanism to attract a growing and diverse mix of resources to meet resource adequacy needs. The role of the Auction within the Resource Adequacy framework will be to serve as a balancing and bridging mechanism able to attract flexible resources to address variation in demand/supply and hence mitigate the associated risk of over/under procurement.</p> <p>At the same time, the IESO will propose enhancements to increase certainty within the auction including a seasonal minimum</p> |

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| | <p>target capacity and provide forward guidance on target capacities that can be expected in future years. The Capacity Auction will play a key role in the implementation of the RA framework and is expected to be used as a tool to acquire more than double the current Target Capacity.</p> |
| <p>Support was indicated for the proposed minimum capacity floor and target capacity trajectory through 2026 which will improve investment confidence, particularly for behind-the-meter (BTM) resources</p> | <p>The IESO appreciates this feedback and looks forward to continued discussions to operationalize the Resource Adequacy framework.</p> |
| <p>A stakeholder suggested a clear problem statement for each Capacity Auction enhancement design category be identified to facilitate engagement and design activities</p> | <p>The IESO has outlined clear objectives for proposed enhancement priorities: improve performance, increase certainty, expand participation. IESO will continue to ensure design enhancements include a rationale that is aligned with these objectives.</p> |
| <p>A stakeholder suggested the rules for activation, testing, qualifying, paying, and charging penalties should be assessed holistically.</p> <p>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 and to incent correction of poor performance.</p> <p>Charges should be calculated to recognize that some resources are utilized more frequently than others. Consider assessing performance over an entire obligation period to achieve a more equitable and effective treatment of different situations.</p> | <p>Improving resource performance is a key objective for 2021 design work, that is expected to be implemented by the 2022 Auction. The IESO will be introducing proposals which will include tying performance to future participation and looks forward to consulting with stakeholders on these approaches.</p> |
| <p>Related to the qualified capacity design category, stakeholders suggested that the proper way to determine capacity values for variable generators is to perform an effective load carrying capability (ELCC) study and capacity values should be determined on a seasonal basis instead of an annual basis.</p> | <p>The IESO looks forward to discussing details, including resource-specific qualified capacity methodologies, of the qualified capacity design category with stakeholders at upcoming Resource Adequacy engagement meetings.</p> |

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| <p>A stakeholder noted that a qualified capacity process will not be in place for the 2021 Capacity Auction, which they felt was unacceptable because a majority of resources procured through the auction are hourly demand response (HDR) and a substantial share of these resources will be unavailable when called upon. Without a qualified capacity methodology, HDR resources will continue to receive credit for capacity they cannot provide.</p> | <p>Improving performance is a key objective for 2021 design work. IESO plans to begin discussing a transition to UCAP for all resources to better align qualified capacity with availability and performance at times of system need. The UCAP does not replace the performance assessment to which all capacity resources are subject.</p> |