

## **Market Surveillance Panel**

### **Comments on the IESO Presentation: Resource Adequacy Engagement (August 26, 2021)**

**September 17, 2021**

On August 26, 2021, the IESO provided an update to stakeholders on the Resource Adequacy Engagement, presenting proposed design features for the medium-term capacity RFP and a set of recommendations from the Capacity Auction's Review of Performance Obligations and Assessment Framework. The Market Surveillance Panel (Panel) provides the following comments on the IESO's design proposal and Capacity Auction recommendations.

First, the Panel believes that limiting resource eligibility in the medium-term RFP to existing resources could unnecessarily lessen the procurement's competitiveness and the associated benefit to consumers of lower procurement costs. The Panel proposes that the IESO provide evidence to support its decision to limit resource eligibility.

For example, under the IESO's proposed design, off-contract existing resources in the RFP would not be subjected to the potential competitive discipline of new resources. While the future availability of new resources is less certain due to potential permitting and construction delays and actual performance, they could, however, serve to drive down prices and perhaps provide a better product that more fully meets the rated criteria. Their potential benefits to a competitive procurement are worth further consideration. To help stakeholders better understand the IESO's decision to exclude these resources from the medium-term RFP, the IESO could provide historic data on such issues for both conventional and emerging technologies like battery storage to quantify the risk of capacity unavailability. Furthermore, the IESO assumes that existing resources that are unsuccessful in the medium-term RFP would promptly exit rather than wait to compete in future procurements, including the shorter-term Capacity Auction, and that this exit would pose a risk to reliability. Since a new resource is additional to the current fleet, the exit of the old resource should simply be a "swap" of old for new, if the RFP were properly designed. The IESO could present any analysis or information that it used to assess the risk of the prompt exit of existing resources under these circumstances and the likely impact on reliability.

Second, the IESO's rationale for excluding demand response and imports in the medium-term RFP is to avoid "an indirect impact on the Capacity Auction." The Panel views this interaction between short-term and medium-term procurements as a more competitive long-term outcome. Each supplier should have the choice to offer in both the Capacity Auction and the multi-year RFPs, depending on their own availability, risk tolerance and price forecasts.

Third, limiting competition to existing resources in the medium-term RFP may increase the potential exercise of market power. The presentation material does not mention the IESO's approach to mitigating this potential.

Finally, the Panel generally supports the six changes proposed by the IESO in the Capacity Auction Review. The IESO has outlined pragmatic steps to enable a fair transition to qualified capacity and improve resources' incentive to deliver capacity when needed. The proposed improvements are consistent with

the Panel's feedback to the March 22 Resource Adequacy session and with the recommendations in the recently published Monitoring Report 35.<sup>1</sup>

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<sup>1</sup> See the Panel's Monitoring Report 35 published September 2021: <https://www.oeb.ca/sites/default/files/msp-monitoring-report-202108.pdf>