

# Stakeholder Feedback and IESO Response

## Resource Adequacy Engagement, Capacity Auction – October 21, 2021 Webinar

Following the October 21, 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 the following stakeholders on the information guide:

- Advanced Energy Management Alliance
- Atlantic Power
- Energy Storage Canada
- EnPowered
- Evolgen by Brookfield Renewable
- Northland Power Inc.
- Ontario Clean Air Alliance
- Power Workers' Union
- Rodan Energy Solutions
- Voltus Energy Canada Ltd.

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 responds to the feedback received and is organized by each topic. This document is provided for information purposes only. It does not constitute, nor should it be construed to constitute, legal advice or a guarantee, offer, representation or warranty on behalf of the IESO.

## Capacity Auction – Introduction

Feedback	IESO Response
<p>Stakeholders request that IESO conducts a review of the in-day adjustment factor to account for actual market activation conditions to ensure that real value of MW is counted and assessed.</p>	<p>The IESO presented its finding of the baseline sensitivity analysis at the 23<sup>rd</sup> September Stakeholder engagement session. The IESO is currently conducting analysis exploring differences in baseline performance between peak and shoulder months and will present results at the December Resource Adequacy engagement session</p>
<p>Stakeholder raised a concern that the stakeholding of the proposed changes was undertaken in an expedited manner</p>	<p>Discussions with stakeholders on the proposed enhancements to the 2022 Capacity Auction were initially kicked off in March 2021 and continued throughout 2021 through multiple Resource Adequacy engagement sessions and focused stakeholder meetings. Additionally, the proposed enhancements within the design document reflect changes based on stakeholder feedback. The October stakeholder session was used to outline these design items and details of these items have been provided in the design document.</p> <p>The IESO welcomes stakeholder feedback on the design document before it is finalized and implementation activities begin.</p>

## Capacity Auction – Enhancement #1: Capacity Qualification

Feedback	IESO Response
<p>Stakeholders recommend that the IESO conducts focused meetings to discuss additional options for a qualified capacity (QC) methodology for HDR resources.</p>	<p>IESO has proposed some revisions around the timing of certain aspects of the enhancements in response to stakeholder feedback. IESO is also planning on conducting an informal session with the DR participants for more focused discussion with HDR resources</p>
<p>Clarification requested on whether the proposed “Top 200 hours of demand” method would disregard times when a hydro-station is under planned maintenance and/or other outage conditions. Stakeholder also requesting examples of QC methodologies for all resource types including hybrid resources and imports</p>	<p>The availability de-rate calculation only considers production/availability. It also includes a broad look-back period of up to 5 years to make an accurate historical availability assessment. By using the top 200 hours of demand or approximately 2% of highest demand hours in the year, is considered a fair approach as resource’s would not be likely to submit and be approved for a significant planned outage during those hours when capacity is likely to be needed. IESO has provided examples of capacity qualification for all eligible resources in the design document posted on the <a href="#">Resource Adequacy Engagement</a> webpage.</p>

<b>Feedback</b>	<b>IESO Response</b>
<p>Stakeholders raised concerns regarding different capacity qualification methodologies for HDR resources and non-HDR resources indicating that capacity for HDR resources are only de-rated using performance adjustment factor (PAF) and non-HDR resources are de-rated using an Equivalent Forced Outage Rate (EFORd) as well as PAF.</p>	<p>The different approaches in qualification methodologies between HDR and other resources is to recognize an inherent difference in resource characteristics and participation framework. It is important to consider the changes holistically (qualification, availability and performance assessment criteria) and where and how they apply to different resource types.</p> <p>For clarification, the PAF is a measure of performance; it is a means of adjusting the resource’s installed capacity, if necessary, in accordance with its demonstrated capability during capacity test activation. As discussed previously, the participation model of HDR (e.g. issuance of standby and activation notices) means there is a lack of data on which to qualify historic real-time availability. This means that the UCAP for HDRs will need to be based solely on past performance; all other resources will be qualified pursuant to resource-specific methodologies. In addition, the IESO has proposed a somewhat different availability performance assessment treatment between HDR and other resource types in part to account for the different characteristics and participation framework.</p>
<p>Stakeholders suggest that the IESO uses the capacity qualification methodology of UCAP on a go-forward basis based on the performance following the December 2022 auction and not used Summer 2021’s capacity factors for UCAP in 2022 obligation periods.</p>	<p>The IESO has communicated a proposal to determine PAFs based on performance during obligation periods following the December 2022 Auction.</p>

Feedback	IESO Response
<p>Stakeholders suggest that the IESO should include Loss Factors in the calculation of UCAP for Demand Response resources to incent additional Demand Response participation by properly valuing the service behind-the-meter resources provide, which includes the avoidance of transmission and distribution system losses.</p>	<p>IESO is not considering credits/gross ups to account for avoided line losses in the near future, since deliverability is not currently part of the qualification process for internal (i.e. located in Ontario) resources. Accounting for line losses would also require significant changes to the modelling of virtual resources and other measurement considerations.</p>
<p>Stakeholders raised concerns regarding future capacity qualification based on performance adjustment factors from previous year would result in a form of retroactive ratemaking resulting in additional penalties for the participants. Penalties should not be carried forward as they are already applied in the current vintage year.</p>	<p>Settlement charges are assessed based on performance within an obligation period. The IESO believes qualifying capacity using historical data (performance, availability, production etc.) is a fair and reasonable approach that also accounts for resource characteristics. The IESO has communicated a proposal to determine PAFs based on performance during obligation periods following the December 2022 Auction.</p>
<p>Stakeholders suggest shifting the performance assessment/derates from aggregated level to the contributor level to eliminate risk of gaming.</p>	<p>The IESO does not intend to conduct any capacity auction activities directly with an aggregator’s contributors. The IESO is currently undertaking the contributor-level analysis and will present the results comparing application of baseline method at the contributor-level vs. the (status quo) resource-level during the December Resource Adequacy engagement session</p>

## Capacity Auction – Enhancement #2: Performance Assessment Modifications

Feedback	IESO Response
<p>Stakeholders suggest that the “emergency” capacity charge should be based on performance relative to availability and not relative to ICAP. This would incentivize all resources to maintain accurate availability and deliver when called upon during emergencies.</p>	<p>At the Nov 23<sup>rd</sup> Stakeholder engagement session, the IESO presented a revised proposal indicating that in a circumstance where the IESO has issued a system emergency advisory, such as NERC Energy Emergency Alert (EEA-1) or when a resource has been put on stand-by, an hourly availability performance charge equal to 10x the availability payment will apply.</p>
<p>Stakeholders requested the IESO extend the capacity test notification for non-quick start/cogeneration resources from day ahead to a week or several days.</p>	<p>At the Nov 23<sup>rd</sup> Stakeholder engagement session, the IESO presented a proposal whereby capacity resources will be required to demonstrate their ability to get scheduled to their cleared ICAP within a 5 day Capacity Test window once per obligation period.</p>
<p>Will the 10% threshold for HDR resources apply to both capacity and dispatch tests?</p>	<p>The 10% threshold to cleared ICAP for HDR resources will apply to the capacity check test only. Requirements/thresholds related to performance in response to dispatch tests remain unchanged.</p>
<p>When levying a 2x capacity charge for poor performance during Emergency Operating State Control Actions (EOSCA), which criteria must be met for the IESO to declare an EOSCA?</p>	<p>At the Nov 23<sup>rd</sup> Stakeholder engagement session, the IESO presented a revised proposal indicating that in a circumstance where the IESO has issued a system emergency advisory, such as NERC Energy Emergency Alert (EEA-1) or when a resource has been put on stand-by, an hourly availability performance charge equal to 10x the availability payment will apply. This is intended to replace the 2x capacity charge for poor performance during EOSCA.</p>

Feedback	IESO Response
<p>The IESO should remove the “true-up” cap of its availability compensation to further incentivize energy supply that can be cleared economically.</p>	<p>The availability true-up enhancement is not intended to compensate capacity auction participants for over availability, rather, it is intended to allow participants to recoup any availability charges that may have been incurred, if on average over the obligation period, the resource makes a greater amount than its cleared UCAP value available in the energy market.</p>

### Capacity Auction – Enhancement #3: Expand Participation to Generator Backed Capacity Imports

Feedback	IESO Response
<p>With respect to generation-backed capacity imports; how is the IESO ensuring fair and equal treatment for carbon pricing and emissions output thresholds for neighbouring jurisdictions within the capacity offer price?</p>	<p>The scope of the capacity auction is limited to procuring qualified capacity from eligible resource types. Additional characteristics/attributes are outside the scope of this acquisition mechanism.</p>
<p>Stakeholder raised a concern about fairness of penalties and performance obligations for capacity resources and how requirements are applied to system-backed capacity imports. More specifically, system-backed capacity imports allow for performance obligations to be met from a portfolio of assets in a neighbouring jurisdiction. This effectively allows system backed capacity imports to meet its obligations with unlimited asset substitution which can include wheeling import transactions or purchases from other jurisdictions.</p>	<p>There are some inherent differences between capacity imports tied to a resource(s) versus those backed by a system. Throughout this process the IESO has aimed to provide fair and appropriate qualification and performance obligation and assessments which account for individual resource characteristics and participation frameworks.</p>

<b>Feedback</b>	<b>IESO Response</b>
<p>Stakeholders recommend the IESO to adopt market rules that treat capacity from internal generators, external system-backed capacity, and external resource-backed capacity equally, as long as their energy can be delivered reliably and consistently when called.</p>	<p>The IESO does not believe applying a rigid, uniform approach which ignores important differences between resources is an acceptable approach. Throughout this process the IESO has aimed to provide a fair and appropriate qualification and performance obligation and assessment framework which accounts for individual resource characteristics and participation frameworks.</p>



## Capacity Auction – General Comments on the Design Document

Feedback	IESO Response
<p>IESO plans to publish the 1<sup>st</sup> draft of the Market Manuals and Market Manuals for the for the Capacity Auction Enhancements between December 15th and December 17th. ESC is concerned that the IESO will be seeking feedback over the holiday break. IESO is requested to provide greater clarity on when they will be seeking stakeholder feedback and how the holiday break will be considered.</p>	<p>IESO will communicate feedback deadlines at the December engagement day.</p>
<p>IESO is requested to reassess its performance scheme and introduce an overall penalty cap (up to annual capacity payment revenues) and incentives beyond the true-up mechanism. At a minimum, the IESO should apply an availability true-up mechanism that is THE GREATER OF: 15% of its resource’s capacity obligation or its cleared ICAP.</p> <p>IESO is also requested to implement a performance incentive for overperformance during a system event such that a capacity resource that delivers more than its capacity obligation is rewarded [i.e., 2 x capacity payment x (generation – capacity obligation)].</p>	<p>Availability true-up has been put in place to compensate a capacity resources for an availability charge, if on average, the resource makes available its cleared UCAP value in the energy market. It is not meant to be a payment for over availability.</p> <p>IESO appreciates the feedback related to performance incentives. While out of scope for this round, IESO is interested in further discussion on this concept.</p>
<p>On Page 28 of the CA presentation, it states that “Performance De-rates: If a resource fails a test, in addition to current charges, their value in the subsequent auction will be de-rated in the following year as part of qualification” – can you please confirm how the following scenario would impact a following auction qualification:</p> <p>A generator has a historical 20% EFORD which inputs into their UCAP value for the current commitment period. In the current year, they experience an EFORD of 5%, however they fail their capacity check test in the current commitment period. How does the interplay between the current year drop in EFORD affect next years capacity qualification while the resource failed its capacity check test?</p>	<p>If a resource fails to deliver its Cleared ICAP during a capacity check test, a PAF will be applied to the capacity qualification for the subsequent year’s auction. This is in addition to the availability de-rating factor that is being applied to qualify all eligible capacity resources for the capacity auction. The PAF should also be considered in the context of the revised testing framework as proposed at the November 23 engagement meeting.</p>

<b>Feedback</b>	<b>IESO Response</b>
<p>IESO is requested to adjust how facilities are tested for their capacity check test. Currently for a thermal resource, depending on the configuration of the plant (e.g., individual units registered as resources), the IESO tests for capacity at the resource level (unit level) instead of at the facility level. Stakeholders request the IESO to assess performance at the facility level and not the resource level. Furthermore, resources should have flexibility to be able to demonstrate their capacity capability without incurring penalties for matters that deviate from the spirit of what a capacity check test is designed to test against including ramp up time and synchronization time.</p>	<p>The IESO has proposed a revised testing framework to better align assessment procedures with test objectives. Capacity resources will be required to demonstrate their ability to be successfully scheduled to 95% of their cleared ICAP during a 5-day testing window.</p>