

Resource Adequacy – October 21, 2021

Feedback Provided by:

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To promote transparency, feedback submitted will be posted on the Resource Adequacy webpage unless otherwise requested by the sender.

Following the October 21, 2021 Resource Adequacy webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following discussed items including the Capacity Auction, Medium and Long Term RFP. 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 November 12, 2021. If you wish to provide confidential feedback, please mark the document "Confidential". Otherwise, to promote transparency, feedback that is not marked "Confidential" will be posted on the engagement webpage.

Capacity Auction

| Topic | Feedback |
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| Introduction | Click or tap here to enter text. |
| Enhancement #1: Capacity Qualification | <p>Voltus takes issue with the current Enhancement proposal on Capacity Qualification and has raised these issues often during the engagement process. The Capacity Qualification Proposal undervalues and unnecessarily penalizes Demand Response resources, while creating a potential loophole. As currently drafted, this proposal would undermine reliability. To improve reliability and market efficiency, Voltus proposes the following revisions:</p> <p>First and foremost, we ask that the IESO use UCAP on a go-forward basis based on performance in 2022, and not use Summer 2021's Capacity Factors for UCAP in 2022. We are of the view that using UCAP on a go-forward basis would provide a more accurate and improved measure of the performance capability of a resource, thus improving the IESO's ability to adjust to changing system needs.</p> <p>The introduction of UCAP was made during the Summer 2021 for the December 2022 Auction. However the IESO announced that they will be using performance factors from Summer 2021 to inform derates for the December 2022 auction. The IESO is changing the rules about performance of an event after the event took place. Voltus views this as a violation IESO's primary operating principles of transparency and market fairness. Making changes retroactively to a market mechanism can have negative impacts on the ability for companies to participate in those mechanisms in the future.</p> <p>In Voltus' case, we do not feel that 2021 data is sufficiently accurate to use as a basis for UCAP calculations. Voltus has several resources who performed poorly in the first Summer dispatch due to significant contributor outages, and we were looking forward to a second dispatch to provide an improved, and more accurate, demonstration of our resource's curtailment capabilities. A second dispatch never occurred, so the single poor performance values, which do not accurately reflect the ability and willingness of these customers to perform, are all that a UCAP calculation would be based on if 2021 values are used.</p> |

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| | <p>Second, 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. The IESO remains the only jurisdiction in North America using UCAP that does not include Loss Factors in the calculation of UCAP for Demand Response resources.</p> <p>Finally, we request that the IESO shift performance derates from the aggregated resource level to the contributor level to eliminate the risk of gamesmanship. If derates occur at the resource level, there will be a loophole through which poor-performing contributors can avoid consequences. Contributors that would be derated if they remained in a current Resource could easily switch to other providers in the subsequent year to avoid any penalties. The IESO’s comments that it is up to aggregators to manage contributor behaviour does not properly reflect the reality that commercial contracts with contributors may expire in any given year and as a result, would have no bearing on the future. Moreover, leaving derates at the aggregation level may place aggregators in the difficult position of having to pursue damages from its contributors. This is likely to drive animosity between aggregators and their contributors, instead of promoting the cooperative environment needed to drive proper performance for the IESO.</p> <p>We are open to further discussion on viable alternatives with the IESO, the AEMA and its members on these issues to ensure that the new rules properly deliver on the IESO’s objectives.</p> |
| <p>Enhancement #2 Performance Assessment Modifications</p> | <p>Voltus has two questions on the Performance Assessment Modifications:</p> <ol style="list-style-type: none"> 1) Is the proposed 90% performance threshold going to apply to both the Dispatch Charge and the Capacity Charge? 2) Is the 2x capacity charge penalty going to be applied to resources who remove their offers prior to being dispatched, signalling an outage? <p>Voltus suggests that the new capacity charge should be based on performance relative to availability, not relative to ICAP, thereby incentivizing all resources to both maintain accurate availability and deliver all that they can during an emergency.</p> |

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| | <p>The current proposal establishes the wrong incentives in our view and introduces a risk that the IESO will not have all available resources at its disposal when needed the most. This is because the HDR program’s rules create a financial incentive for aggregated demand response resources to offer their volumes at as high a price as possible and to then remove those offers when faced with a potential activation. HDR resources are not paid for energy during any in-market activation but may face penalties for performing below their threshold, so it is not worth the risk of facing a dispatch triggered by high energy prices. As a result, these resources are unlikely to make themselves available when there are local transmission or short-term supply issues. Providing energy payments in-line with the formula currently used for emergency dispatches for all activations would drive increased capacity for the IESO during short-term critical conditions, and Voltus would like to see this particular issue addressed in the future.</p> <p>The severity of the new capacity charge penalty exacerbates this problem. Any DR portfolio that may have a significant contributor on outage for any reason, including a contributor that may be responding early for weather or grid related reasons and is already providing capacity to the system, now has an incentive to remove all of the offers for that resource rather than providing additional capacity to the grid during a time of need. To prevent this issue, the IESO should evaluate capacity charges on the basis of availability, rather than on the basis of UCAP for emergency events.</p> |
| <p>Enhancement #3 Expand Participation to Generator-Backed Capacity Imports</p> | <p>Click or tap here to enter text.</p> |
| <p>Other General Comments or feedback on the 2022 Capacity Auction Enhancements Design Document</p> | <p>Voltus recognizes that a number of key changes are required to ensure that resources perform in accordance with their cleared volumes, and we understand the importance of this. However, Voltus is generally concerned that the IESO is going in the wrong direction with these changes and that future reliability and market efficiency will suffer as a result. We have seen demand response play a critical role in the development and maintenance of reliable and affordable grids. This past year saw demand response save the California grid during its Summer crisis and the absence of demand response worsen issues in Texas. The IESO’s current distrust of its demand response resources is</p> |

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| | <p>a function of the program rules in Ontario and not a result of the resource type. We encourage the IESO to work with Voltus and the AEMA to better enable demand-side resources in the province.</p> <p>Ontario saw the exit of a major Demand Response provider from the province this past year (NRG Curtailment Solutions) and we are concerned that other market participants may follow suit given the IESO's current direction. Ontario saw the real benefit provided by Demand Response last summer during the July activations and we believe that DR will be able to offer additional reliable and cost-effective capacity to the province if the participation rules are developed accordingly.</p> |
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Medium Term RFP

| Topic | Feedback |
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| Feedback on the draft schedule | Click or tap here to enter text. |
| Feedback on the extension to the commitment term | Click or tap here to enter text. |
| General comments and feedback | <p>Voltus would like to again reiterate its view that the IESO should not pursue additional fixed contracts in the province of Ontario. Voltus believes that the use of market mechanisms like the Capacity Auction will better enable the IESO to drive more affordable rates over the next twenty years and would prefer to see the Capacity Auction expanded in place of RFPs. The use of additional fixed contracts is likely to drive further expansion of the Global Adjustment settlement pool, which will not benefit the province's consumers.</p> <p><u>Question</u></p> <p>Will the IESO be developing a penalty mechanism for the Medium and Long Term RFPs in the event they do not perform during an emergency out of market activation?</p> |

Long Term RFP

| Topic | Feedback |
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General Resource Adequacy Comments/Feedback

Voltus appreciates the opportunity to provide feedback, but has generally felt that this process has been rushed. The feedback solicitation process has also seemed disingenuous; we see no evidence that IESO has taken stakeholder feedback into consideration to improve the proposals over time. Voltus and other members of the AEMA have repeatedly made compelling arguments against the timing of these changes, the failure to value loss factors, and more. Our comments come from extensive experience in Ontario as well as in other markets that have implemented mechanisms like UCAP.

In addition, Voltus would like to note that the detailed engagement on the UCAP methodology, including whether or not the Summer 2021 season would drive Performance Factors did not start until the engagement on October 21st, 2021 (At the very end of the summer season). This did not allow for aggregations to properly manage the risks of such penalties going into the 2021 season. Moreover, it is still unclear if UCAP will be applied to this year's auction as the IESO continues to say that UCAP will be implemented for the December 2022 auction. If this is the case, then Voltus believes the IESO should use performance factors from Summer 2022 to reflect UCAP in the December 2022 auction, as rules will be finalized by the beginning of next Summer, allowing all aggregators to manage their portfolios in accordance with the new rules.

We have seen the benefits of UCAP when done right, and the pitfalls when it is not implemented well. We encourage the IESO to continue to engage with us and to solve these problems before they cause major issues for Demand Response participants, aggregators, and the grid in Ontario.