

IESO Engagement

From: IESO Engagement
Sent: May 13, 2022 12:04 PM
To: IESO Engagement
Subject: Update - Capacity Auction design enhancements (Resource Adequacy)

Please find below an update on the Capacity Auction design enhancements as part of the Resource Adequacy engagement initiative.

Since the February 24, 2022 stakeholder engagement, the IESO has continued to review stakeholder feedback and has met with the Hourly Demand Response (HDR) community to discuss the concerns with the proposed augmented availability charge for the 2022 capacity auction. As a result of these discussions, the IESO will be revising the original proposal to limit the magnitude of this charge when an HDR resource is placed on standby outside of an emergency event.

Background

In the IESO's original proposal, the augmented availability charge would apply to all resources when an advisory notice identifying the potential for the declaration of an emergency event, or the declaration of an emergency event, is issued. The charge was also proposed to apply to HDR resources whenever they are placed on standby. The charge was proposed to be equal to 10 times the availability charge, inclusive of the applicable non-performance factor, and applied only to the MWs that were not made available in the energy market. The application of the charge on standby conditions was put in place to account for the unique participation framework of HDR resources, and the inability for the IESO to apply an availability de-rating factor as part of the capacity qualification process as a result of it.

The determination of an availability de-rating factor for a resource is based on historical data, and for a dispatchable load, the most similar resource to an HDR, it is based on bid data from the most recent comparable obligation period. As part of the participation framework of a HDR resource, the requirement to maintain energy market bids is contingent on receiving a standby notice (the issuance of which is triggered by prices). If a standby notice is not received, energy market bids must be removed. In addition, participants with virtual HDR resources (i.e. not revenue metered by the IESO) are only required to provide their measurement data to the IESO for months in which they are activated. These two factors result in the availability of historical data for HDR resources being limited, and consequently, the determination of an availability de-rating factor would be challenging.

Due to this, and to ensure fair treatment between different resource types, the IESO revised the proposed application of the augmented availability charge to HDR resources placed on standby .

Revised Proposal

The IESO has revised this proposal by creating a separate 'standby availability charge'. The proposed 'augmented availability charge' will apply to all resources when an advisory notice identifying the potential for the declaration of an emergency event, or the declaration of an emergency event, is issued. The attributes of the 'standby availability charge' are the following:

- Applies to a HDR resource when it is placed on standby, and will apply in addition to the existing availability charge
- Equal to five (5) times the availability payments (without the application of a monthly non-performance factor)

- Apply only to the capacity not made available during hours of availability on standby days occurring during peak months of each obligation period (i.e. months with a non-performance factor of 2)
- Application of the charge will be capped at a total of 25 standby days per obligation period (calculated per resource)
- Does not apply during emergency conditions (when the augmented availability charge applies instead)

In addition to this, the IESO is proposing to apply a cap on the total penalties that any capacity market participant could incur in an obligation period, equal to 100% of the resource's availability payments for that obligation period. This ensures the maximum financial risk a resource is exposed to is predictable.

Rationale

The goal of this proposal is to create a more equal treatment across resource types in terms of financial risk in the auction. In particular, the IESO focused on ensuring a HDR resource is treated equivalent to a dispatchable load resource which is subject to an availability de-rating factor during capacity qualification. The intent of the standby availability charge is to incent a HDR resource to self-qualify and offer MWs into the auction that will be available, and can be relied upon, at times of system need.

The formula for determining the availability de-rating factor for a dispatchable load resource involves looking at its historic participation in the energy market during the top 200 hours of Ontario demand per obligation period. Using the same logic, the IESO determined that those top 200 hours of demand equate to approximately 25 standby days in the peak months of each obligation period. Considering these 25 standby days, applying a factor of 5 to the availability charge brings the maximum financial penalty a HDR resource would be exposed to in an obligation period through this charge to the same amount a dispatchable load resource would be exposed to through the availability de-rating factor.

Next Steps

These two revisions will be included in the Market Rule Amendment Proposal and the draft Market Manuals that will be brought forward to the Technical Panel as part of the Vote to Recommend, scheduled for Tuesday, May 17, 2022. Materials for this item at Tuesday's TP meeting can be found here: <https://ieso.ca/en/Sector-Participants/Engagement-Initiatives/Technical-Panel/Meetings-and-Materials>

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This email is being sent to all Resource Adequacy stakeholders