Stakeholder Feedback and IESO Response

IESO York Region Non-Wires Alternatives Demonstration Project – July 20, 2021

Following the July 20, 2021 engagement webinar on the IESO York Region Non-Wires Alternatives Demonstration Project, the Independent Electricity System Operator (IESO) received feedback from one participant on the Demonstration design.

The IESO received feedback from:

- Power Workers' Union

The presentation materials and stakeholder feedback submission have been posted on the IESO York Region Non-Wires Alternatives Demonstration Project webpage. Please reference the material for specific feedback as the below information provides excerpts and/or a summary only.

Notes on Feedback Summary

The IESO appreciates the feedback received. The IESO has provided a summary below, which outlines specific feedback or questions for which an IESO response was required at this time.

Demonstration Design

The IESO asked stakeholders if any of the design parameters or requirements in the Demonstration are problematic for potential participation, and if there any elements that can be adjusted to better facilitate participation. Feedback was received from one stakeholder on this topic.

Feedback	IESO Response
The Power Workers' Union recommended to preclude Industrial Conservation Initiative (ICI) participants from participating in the Demonstration's Local Capacity Auction where they would be paid more than once for the same service.	As acknowledged during the July webinar, the eligibility rules in the Demonstration with respect to the ICI program were developed from a practical perspective, with the intent of ensuring that the Demonstration will receive participation and be feasible to conduct. It would be prudent to conduct a detailed assessment of the appropriateness of "stacking" local services/programs (such as local capacity service at the distribution level) with the ICI program as part of real-world implementation of local services. That said, please be reminded that ICI is a cost recovery mechanism for Global Adjustment (GA), which primarily relates to system generation costs. The Demonstration's non-wires alternatives component relates to "poles and wires" investment, which is a separate cost category from the costs in GA.

General Comments/Feedback

Included in the feedback submission from PWU were three other recommendations for consideration. These are briefly summarized below.

Feedback	IESO Response
Compare the costs and benefits of projects that cleared the Demonstration's Local Capacity Auction to alternative options for meeting Ontario's reliability needs.	As noted in the webinar, and further detailed in section 1.4 Demonstration Objectives of the Demonstration Rules, the intent of the Demonstration is primarily to explore market and system operation mechanisms and issues. We recognize that the economic assessment of options for meeting identified needs is a major component of identifying and pursuing non-wires alternatives opportunities beyond pilots. The IESO published the final report of the Regional Planning Review Process (RPRP) in February 2021. Among other issues, the document details a range of barriers to non-wires alternatives, including that

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	there is a need to develop an evaluation framework to capture, to the extent they can be realized, the full range of NWAs benefits to ensure a fair comparison between options. As a near-term action, the IESO is will be formalizing the non-wires alternatives study process to clarify the framework under which regional planning considers and evaluates non-wires options to provide additional transparency to stakeholders and advance general process understanding. We also note that the OEB initiated a consultation process in December 2020 and has re-established its Regional Planning Process Advisory Group (RPPAG) to assist in undertaking a review of the regional planning process that applies to Ontario's electricity sector, including consideration of certain recommendations from the IESO's RPRP report. That said, the Demonstration is structured such that it facilitates the 'stacking' of both local and system energy and capacity value. In the approach adopted in the Demonstration, the transmission and distribution (T&D) network 'deferral value' is a component of the capacity value of the Distributed Energy Resources (DERs), for which they receive Availability Payments. For the purpose of the demonstration, the maximum capacity price was set at a notional amount reflecting one year of the cost to construct and operate the transmission and distribution infrastructure that would otherwise be required in absence of the local capacity provided plus a reference annual price for system-level resource capacity. The November 2020 Local Capacity Auction cleared at $0.64/kW-day, which is significantly below the $1.6/kW-day maximum price, and suggests that under the right circumstances and in the right areas (e.g. in import-constrained local areas of the distribution system), DERs have the potential to serve as cost-effective non-wires alternatives.

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Use real options analysis to consider the timing of procuring DER vs traditional infrastructure investments.	In this context, we understand "real options analysis" to mean a cost-benefit analysis that considers the uncertain timing of system needs and attempts to evaluate the flexibility of making decisions in the future. Thank you for noting this novel potential assessment method. The IESO recognizes that real options analysis could be a valuable approach and will continue to monitor sector researchers, think tanks, and others who are working on new methodologies, both here in Ontario and other jurisdictions across the globe.
Consider how auction and pilot results would change should natural gas-fired generation be phased out in Ontario.	The IESO is looking to inform future discussion about the implications of a phase out of natural gas generation in Ontario. An engagement has been initiated that will seek to develop an assessment that outlines the implications of lowering emissions by reducing the reliance on natural gas generation. As well, the IESO is taking steps to provide more opportunities for emerging resources to meet system needs. The Enabling Resources Program will produce an integrated plan that will outline the sequencing, timing and scope of activities to be undertaken by the IESO to enable existing electricity resources to provide electricity system services in the renewed Ontario wholesale market that they cannot, or cannot fully, currently provide. From an IESO York Region Non-Wires Alternative Demonstration Project perspective, we note again that the objectives of the project relate primarily to market and system operations. The mechanism being demonstrated in the project is intended to be workable for a number of DER types, including storage and demand response resources. As the cost and performance of emerging technologies improve and methods to integrate them mature, we expect that there will be a much greater role for them in the electricity system of the future.