

Memorandum

To: Stakeholder Advisory Committee

From: Barbara Ellard, Director of Resource and System Adequacy

Date: June 28, 2022

Re: IESO Business Update – Resource Adequacy

The following provides an update to members of the Stakeholder Advisory Committee (SAC) on Resource Acquisition activities, including those contemplated under the Resource Adequacy Framework, additional mechanisms identified in the letter dated April 4, 2022 from the Minister of Energy, and the 2021 and 2022 Annual Acquisition Reports.

The IESO remains committed to transitioning to the use of competitive mechanisms to meet Ontario’s emerging resource adequacy needs and understands that stakeholder input is critical to inform this transition.

The 2022 [Annual Acquisition Report \(AAR\)](#), released on April 8, identified a larger than originally anticipated capacity need emerging as early as 2025 and provided updates on how the IESO will meet these system needs through existing acquisition mechanisms, as well as a number of additional processes. The IESO will be reporting back to Government on these additional mechanisms by July 15. As background, the 2021 AAR described capacity needs emerging later in the decade and outlined the initiation of several procurements: (1) continuation and growth of the Capacity Auction, (2) initiation of the first medium-term procurement to acquire capacity from existing resources that have expired or expiring contracts (MT I RFP), and (3) the first long-term procurement to acquire new capacity (LT1 RFP).

In order to inform the design of additional mechanisms to address the needs identified in the 2022 AAR for 2025/26, the IESO issued a confidential questionnaire to the sector as part of the LT1 RFP engagement. Based on the questionnaire responses, the IESO determined that a number of additional mechanisms can be utilized to address emerging needs. The additional mechanisms identified below were designed based on feedback collected from sector participants and the IESO’s risk assessment. As the IESO proceeds with the procurements, the design, targets and eligibility can continue to be refined, and reflect any future policy decisions.

- The IESO will continue to rely on the annual Capacity Auction to acquire a diverse and growing set of resources that help meet needs in the near term; in addition, the IESO has proposed a Forward Capacity Auction (FCA) to work in conjunction with the annual Capacity Auction to secure capacity for 2025/26 on an earlier timeline
- The IESO is in the process of refining the design of the LT1 RFP based on feedback received at a number of engagement sessions
- The Expedited Long-Term Request for Proposals (Expedited Process) has been added to work together with the LT1 RFP as an accelerated process geared towards projects that are able to achieve commercial operation in 2025
- Both the LT1 RFP and Expedited Process are preceded by a Request for Qualifications (RFQ). The final LT1 RFQ has been posted, and submissions are due June 30. Qualified Applicants are expected to be announced by July 20 for the Expedited Process and August 15, 2022 for the LT1 RFP
- An additional mechanism has been introduced to target upgrades and expansions of existing contracted resources (Same-Technology Expansions)

The IESO has been engaging with the sector on the identified Resource Adequacy initiatives and provides the following updates.

Medium Term RFP:

The proposal submission window for the MT I RFP closed on April 28 and proposal evaluation is currently underway. The IESO will announce the results before August 26.

Long-term RFP and Expedited Process:

The IESO has also been working together with stakeholders and communities on the key design considerations and procurement process for the LT1 RFP and the Expedited Process. Based on these discussions, the IESO recommends:

- (1) the minimum term length be extended to 20 years with the ability for longer terms for resources that come into service by 2025;
- (2) the commercial structure be based on a capacity payment that provides for an adjustment depending on energy market conditions;
- (3) mandatory criteria require proponents to be dispatchable Market Participants able to provide at least four hours of continuous energy, demonstrate site access, required permitting, a Community Engagement Plan and either a Municipal Council Support Resolution or Band Council Support Resolution depending on project location; and,
- (4) rated criteria focused on location, duration of service and Indigenous participation in the LT1 RFP, while further consideration is underway for incentivizing Indigenous participation in the Expedited Process.

Capacity Auction:

Enhancements for the 2022 Capacity Auction were reflected in the draft market rules and market manuals brought to the Technical Panel for a vote to recommend on June 14. A majority of Technical Panel members voted not to recommend a market rule amendment proposal –

Enhancements to the 2022 Capacity Auction (MR-00469-R00) - to the IESO Board of Directors. The IESO is reviewing feedback from the members of the Technical Panel and the outcome of the vote to consider next steps around the market rule amendments.

Forward Capacity Auction:

The proposed Forward Capacity Auction (FCA) is intended to work in conjunction with the annual Capacity Auction (ACA) to secure emerging capacity needs further in advance of 2025/26 when they are expected to appear. The FCA will leverage the existing ACA design, but introduce a longer forward period and a three-year commitment period to attract more capacity. The FCA will also pilot potential enhancements and gather learnings for the continued evolution of the capacity auction and Resource Adequacy Framework. A high-level approach for the FCA was introduced for feedback at the June 9 engagement session.

Same Technology Expansions:

The IESO received feedback from the confidential questionnaire on resources that could increase the capacity of their facilities and meet a 2025/26 in-service date. Subsequent to the questionnaire, a number of proponents have reached out with a variety of uprate/upgrades and expansion ideas related to their existing contracted facility. The focus has been on resources that can provide firm capacity and meet longer energy requirements (eight hours or more) as per the requirements in the AAR. Stakeholders identified a number of different types of same-technology optimization opportunities. Some involve upgrades to, or replacements of, facility equipment that would increase the operating capability of the existing contracted facility. Others involve expansions through installation of new, separately metered, registered and operated generation on the same site as the existing contracted facility (with little interaction with the existing contract or facility operation).

Small Hydro Program:

The IESO has engaged with key stakeholders, including facility owners and the Ontario Waterpower Association, over the last number of months on the design of a Small Hydro Program. Through an iterative process, the IESO was able to evolve and refine the Small Hydro Program design based on feedback. The IESO has prepared a report to be submitted by July 1, 2022, summarizing the feedback and high-level design in response to the Minister's Directive on procurement of electricity resources.

These updates help frame the path forward on meeting the Resource Adequacy needs of the sector. More information is available on each of the respective engagement webpages as well as the [June engagement update](#).