

# Feedback Form

2022 Capacity Auction Enhancements -

Implementation – Technical Panel Meeting -

May 3, 2022

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Date: May 3, 2022

## Market Rules

<b>Market Rule Chapter</b>	<b>Title</b>	<b>Sub-section</b>	<b>Feedback</b>
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Ch. 7	System Operations and Physical Markets	<p>AEMA does not agree with the IESO's removal of energy payments from HDR Resources for the capacity auction's capacity tests. The IESO identified in its September 2019 DRWG session that compensating resources for capacity tests resulted in more efficient auction outcomes. Additionally, The DR Community and the IESO agreed in 2019 and 2020 that during an out-of-market dispatch (Tests and Emergencies), HDR resources are eligible for energy payments (\$250/MWh for tests and Offer Price minus HOEP for emergencies). The IESO's argument is that HDR Resources are now scheduling economically for tests, and as a result, the dispatch does not qualify as an out-of-market activation. This argument looks over the fact that the IESO is removing all standard rules in place for HDR Resources for the testing week. This removal of the price floor for HDR Resources qualifies as an IESO administrative action and leads to HDR resources being dispatched out-of-market.</p> <p>To this end, we request that the IESO amend Chapter 7, Market Rule 19.4.15 to read: "The hourly demand response resource shall be entitled to compensation for valid capacity auction dispatch tests and capacity auction capacity tests conducted during a commitment period pursuant to this section 19.4 and in accordance with the applicable market manuals."</p> <p>AEMA disagrees with the inclusion of 18.2.1.2a and believes that there is no reason to shift minimum capacity qualification requirements from ICAP to UCAP. ICAP values represent the energy that an HDR resource is able to deliver in any given hour and should therefore be</p>
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offered into the energy market each hour of the capacity obligation period. As a result, the minimum participation threshold should remain at 1 MW of ICAP. Transitioning this threshold to UCAP would not only lead to a number of resources being unable to qualify for the auction causing a net reduction of capacity being available to the IESO, but it also doesn't make sense to force resources to offer a derated capacity value into the energy market as this does not represent either: a) the physical capability of the resource, nor b) the value at which the resource would have to perform to reinstate a higher performance factor.

The IESO has stated in Stakeholder sessions that good performance on the new "capacity auction capacity test" would be expected to eliminate the need for the capacity auction dispatch test. Can the IESO please confirm and point to where in the market rules or manuals this is stated?

From stakeholder engagements, AEMA understands the PAF will be set only by performance on the "capacity auction capacity test". Can the IESO please confirm and provide clarity in the market rules?

For all resource types, performance on the 'capacity auction capacity test' is very important to future UCAP values. The IESO has proposed to provide a week in which participants can self schedule this test. AEMA is seeking clarity on how a market participant can mitigate PAF impact if there is a forced outage during the week designated by the IESO. Will there be a mechanism to reschedule the test week? For HDR resources, which do not have a formal outage process, how does the IESO want HDR resources to deal with unforced outages during this period?

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			<p>AEMA notes that, if the performance of the ‘capacity auction capacity test’ is included in the baseline of HDR resources, the baseline will be unfairly low. AEMA would like to confirm that the hours of the test will be excluded from the baseline of HDR Resources.</p> <p>Market Manual 12 states that the IESO will provide 5 business days notice for the capacity testing window. Will the IESO ensure this is also reflected in the market rules?</p>

Ch. 9	Settlements and Billing	<p>4.7J.2.1B</p> <p>AEMA acknowledges the IESO's goal of creating equal UCAP methodologies across all resource types. AEMA, however, continues to believe that the current proposed implementation of the augmented availability charge fails to create a level UCAP value for HDR resources and also fails to align the economic incentives of the HDR resource type with the IESO's stated goals. AEMA strongly recommends that the IESO revisit the design of this element and would be pleased to engage with the IESO on more viable options to accomplish their goals.</p> <p>The IESO's declared intent of market rules related to the Augmented Availability Charge/Standy Availability Charge (I.E. 4.7J.2.1B/4.7J.21D) is two-fold: 1) provide the ability for resources to take an outage by not submitting into the DACP. By doing so, they would be subjected to the Availability Charge, but not the Augmented Availability Charge; and 2) Assess the Augmented Availability Charge/Standy Availability Charge on HDR resources who are issued a stand-by notice and whose offers into market are less than their capacity obligation. AEMA continues to have significant issues with the penalty structure and believes it will cause inappropriate incentives for market participants. Moreover, as written, AEMA believes this does not accomplish either goal.</p> <p>First, Market Rule 4.7J.2.1B/4.7J.2.1D, only applies the augmented availability charge to an HDR resource in the event of reduced availability on a day that the IESO has issued an emergency advisory or declared an emergency operating state. This does not allow resources to declare outages prior to the</p>
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Market Rule Chapter	Title	Sub-section	Feedback
			<p>DACP, nor does it establish a stand-by notice being issued to an HDR resource as a deciding factor for that resource to be subject to an augmented charge. Moreover, AEMA believes that to meet the intent of the IESO's rulemaking, the augmented availability charge/standby availability charge must allow for partial outages to be declared for resources. Failing to do this will incentivize resources with partial outages to declare complete outages to reduce their penalties.</p> <p>To this end, AEMA proposes the following changes:</p> <p>"Where the IESO has issued an advisory notice that there is the potential for declaration or has declared an emergency operating, or has placed a resource on standby, a capacity market participant participating with an hourly demand response resource or a capacity dispatchable load resource shall be subject to an availability charge in the amount of ten (10) X (TBC) times the availability charge determined under section 4.7J.2.1 for every hour of the availability window in which it reduces its energy bids below the bids entered into the day-ahead commitment process, where those bids are less than the resource's capacity obligation."</p>

<b>Market Rule Chapter</b>	<b>Title</b>	<b>Sub-section</b>	<b>Feedback</b>
Ch. 11	Definitions		<p>AEMA requests that the IESO establish a concrete definition for an “advisory notice that there is the potential for declaration of an emergency operating state.”. In response to previous stakeholder questions on this point the IESO has provided a vague answer with a reference to where EEAs are posted.</p> <p>Stakeholders need clarity if the IESO intends “potential for a declaration of an emergency operating state” to only apply if an EEA has been issued or if other types of alerts will also be a trigger.</p> <p>AEMA also requests that following issuance of an advisory notice that there is a potential for declaration of an emergency operating state, Capacity Auction resources should be given a reasonable period to update their offers without penalty. For example, if an optional planned outage is being taken on a day that appears suitable and then an emergency alert is issued and that outage work is able to be rescheduled, the resource should have the opportunity to increase their offers. Under the current proposal, resources will not be able to respond to unexpected emergency conditions and increase capacity if possible.</p>

## Market Manuals

<b>Market Manual</b>	<b>Title</b>	<b>Sub-section</b>	<b>Feedback</b>
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12	Capacity Auctions	<p>AEMA requests that the IESO reinstate language allowing HDR resources that have previously passed a test and have not changed its obligation by more than 5 MW to be eligible for reduced tests. The IESO has at no point stated that it was its objective to remove this option.</p>
		<p>It is unclear to the AEMA when the Capacity test would be viewed as a sign of completion for the Dispatch Test. AEMA requests additional clarity on this matter.</p>
		<p>On buy-outs, can the IESO provide greater clarity on how market participants should manage offers once buyouts have been submitted? Often, market participants are notified by email that buyouts have been accepted prior to notification in Online IESO. The new language creates a lack of clarity on what market participants should do.</p>
		<p>The AEMA wants to thank the IESO for revising the deadline for notifying the IESO of which date and times to use for testing to align with existing data submission timelines.</p>
		<p>The AEMA feels that performance thresholds for HDR resources should not be changed given that there are still a number of unresolved issues that negatively impact performance. These issues are going to be worsened by the introduction of other proposed changes, making it more difficult to meet the current 80% threshold let alone a 90%.</p>
		<p>The inability to submit outages introduces a significant performance risk for HDR</p>

<b>Market Manual</b>	<b>Title</b>	<b>Sub-section</b>	<b>Feedback</b>
			<p>participants that other resources do not have. Additionally, the AEMA still disagrees with the mandatory resource-level IDAF. Depending on the size of a resource's load, the baseline adjustment alone could put a resource below the 90% before an event even starts.</p> <p>All of these existing issues, coupled with the performance assessment being measured against ICAP (rather than the actual energy bid) puts HDR participants in a very difficult place . The way to reduce this risk is keeping the current performance thresholds for HDR resources. At the very least, AEMA advocates for waiting to change the HDR performance threshold until the impact of the other proposed changes can be appropriately assessed.</p>
4.2	Submission of Dispatch Data in the Real Time Energy and Operating Reserve Markets		Click or tap here to enter text.
4.3	Real Time Scheduling of the Physical Markets		Click or tap here to enter text.

Market Manual	Title	Sub-section	Feedback
5.5	Physical Markets Settlement Statements		<p>AEMA does not agree with the IESO's removal of energy payments from HDR Resources for the capacity auction's capacity tests. The IESO identified in its September 2019 DRWG session that compensating resources for capacity tests resulted in more efficient auction outcomes. Moreover, the proposed structure for the new capacity tests amounts to an IESO administrative action to effectively dispatch HDR resources out-of-market. The fact that this is done through self-scheduling actions by the aggregators does not change this reality. Moreover, at no point did the IESO declare its intent to remove energy payments from capacity tests prior to release of these amendments.</p> <p>Section 1.6.26.3 states: "Augmented availability charges (i.e. when availability requirements are not met to the <i>cleared UCAP</i> for a declaration or a potential declaration of an emergency operating state or after an HDR resource has received a standby notification); - It is AEMA' understanding that offers must be submitted to the IESO for the ICAP value of the resource, not the UCAP value of the resource in order to not be subjected to availability charges. Can the IESO clarify?</p> <p>As written, 1.6.26.3.2A suggests that HDR Resources are eligible for True-Up payments in the event that their registered capability is greater than the cleared ICAP value of the resource. How is the IESO determining an HDR Resource's Registered Capability?</p>

Market Manual	Title	Sub-section	Feedback
	IESO Charge Types and Equations		AEMA believes that to meet the IESO's intention, the Augmented availability charge calculations should be amended to: $\sum h_n (-1) \times \text{Max}(0, (\text{DREBQDACP} - \text{DREBQh})) \times \text{CACPh} \times (10 - \text{CNPfM})$
7.3	Outage Management		Click or tap here to enter text.

## General Comments/Feedback

IESO has laid out the objectives for the December 2022 Capacity Auction Enhancements:

- #1 Qualification – to adopt transparent process methodologies to derive an UCAP value for all resources while accounting for unique resource participation frameworks
- #2 Performance Assessment – to change performance assessment obligations and assessment framework to incent improved performance from acquired capacity resources
- #3 Expand participation – to increase competition and cost effectiveness through enabling participation from generator-backed capacity imports.

HDR resource participants including members of AEMA have long advocated and supported design 'enhancements' and market rule amendments to improve all aspects of the Capacity Auction to enable an efficient and competitive procurement mechanism including expanding the eligibility of the Demand Response Auction while ensuring a level playing field existed. Based on comments posted throughout Capacity Auction engagements, the willingness to work with IESO is apparent. This is why the HDR community is perplexed that the IESO did not follow their own stakeholder engagement process and timelines for design of the Capacity Auction enhancements #1 and #2 and their implementation through the Market Rule Amendment process.

Throughout the summer of 2021, discussions were held with load CA participants on how the de-rate would work, along with UCAP formulas for other resource types. It was not until November 2021, that the IESO introduced the 'Augmented Availability Charge' and a 10x penalty. AEMA members engaged immediately to understand the impact to their resource and how this penalty would compare with other resources. HDR participants asked IESO for transparency into how they settled that 10x was the correct penalty. Before receiving formal feedback from market participants on the

market design, IESO published market rule amendments. Throughout the first three (3) months of 2022, market participants continued to request transparency into the foundation of the 10x penalty and in good faith prepared and met with IESO staff to demonstrate that the new penalty would not create a comparable de-rate, therefore, not creating a comparable capacity value with other resources. Market Participants also demonstrated how the augmented penalty (now called the Standby Availability Charge) would not incent the right behaviour and did not take into account the 'unique resource participation framework' of the Hourly Demand Response resource. (see comments for 4.7J.2.1D/4.7J.2.1B). A point that when brought forward to IESO staff, the immediate response has been a 'threat' about enforcement versus an honest discussion on why the charge could incent the wrong behaviour.

It was not until the Technical Panel voted to post the market rule amendments for the Capacity Auction Enhancements for comment did the IESO provide a comparison of the value of the 'de-rate' from the Standby Availability Charge and the UCAP formulas. At the time of drafting of these comments (due May 3<sup>rd</sup>, 2022), HDR participants continue to have meetings (April 28<sup>th</sup>) and discussions with IESO staff on issues identified in the market rule amendments and changes to the original 10x penalty of the Standby Availability Charge continue to be proposed by IESO staff. It is particularly difficult to assess whether market rule amendments meet the intent of the design, when a clear 'final' proposal has not been made by IESO staff. As mentioned by a Technical Panel member during the April 19th Technical Panel vote to post discussion, how can the Technical Panel provide advice on a set of rules, when they do not seem complete.

Additional key elements of the proposed market rule amendments also do not provide for a comparable participation model for resources. As noted above and in comments submitted by AEMA members over the past year, the lack of an outage process for load resources impacts the participation of both the dispatchable load and the HDR resource, as does the removal of the payment paid to HDR resources when they perform a test based on an administrative action.

The interaction between energy market participation and the structures put in place in the Capacity Auction do overlap and should be recognized, as opposed to being built in two silos. As the majority of resources move to medium- and long-term contracts and the payments appear to begin to blend, the interaction between the capacity and energy market participation need to be coordinated.

Overall, the proposed market rule amendments do not meet the intent of the design. As demonstrated through discussions with IESO staff, the implementation of the Standby Availability Charge (4.7J.1D) along with the other notable changes (change from 20%-10% threshold; the new testing regime without payment) do not meet the design intent of a 'level playing field' for qualifying resources.

AEMA requests that the market rule amendments focused on Capacity Qualification and Performance Assessment for the HDR resource be removed from the Capacity Auction Enhancement package until a set of rules have been consulted fully with stakeholders, and the Technical Panel is able to review a

complete set of market rule amendments. The set of market rule amendments focused on enabling the generator-backed capacity imports should move forward to a 'vote to recommend' at the May 17<sup>th</sup> Technical Panel meeting (dependent on any stakeholder input received).

AEMA is a North American trade association whose members include distributed energy resources ("DER"), demand response ("DR"), and advanced energy management service and technology providers, as well as some of Ontario's largest consumer resources, who support advanced energy management solutions due to the electricity cost savings those solutions provide to their businesses. These comments represent the views of AEMA as an organization, not any individual company.