

# Memorandum

**To:** Technical Panel  
**From:** Adam Cumming  
**Date:** May 10, 2022  
**Re:** MR-00469-R00 – 2022 Capacity Auction Enhancements

The IESO's Capacity Auction helps to meet Ontario's reliability needs in a cost effective manner while allowing the IESO to adjust to changing system needs.

Additional information on the Capacity Auction can be found on the IESO's Capacity Auction [webpage](#).

The IESO is proposing to make a series of enhancements to the Capacity Auction.

## **Enhancement #1: Capacity Qualification**

The IESO is proposing to introduce a capacity qualification process. During the pre-auction period, resources that intend to participate in an upcoming Capacity Auction will be required to submit an installed capacity (ICAP) value for qualification of each resource. The IESO will apply the resource-specific capacity qualification methodologies to derive a unforced capacity (UCAP) value which will represent the maximum quantity that the resource may offer into the auction.

## **Enhancement #2: Performance Assessment Modifications**

In order to enhance the reliability and market performance of acquired capacity resources, the IESO conducted a review of current performance obligation and assessment criteria to identify improvements. The IESO is proposing to make modifications to the performance obligation assessment framework seeking to achieve the objectives of:

- Incenting proper behaviour from acquired resources during the obligation period, including a resource's availability during hours of system need, and their bid and offer obligations in the energy market;

- Reducing the risk of underperformance, especially during hours of system need;
- Improving confidence in and addressing concerns related to the reliability value provided by resources secured in the auction; and
- Ensuring alignment, balance and fairness between capacity qualification and performance assessment for different resource types.

Some of the enhancements proposed to meet these objectives include:

- More predictable and consistent capacity testing and performance assessments
- Stronger availability performance requirements to incent resources to be available and reliable at times of need
- An availability charge true-up to compensate resources for some of the availability charges incurred if, on average, the resource availability is equal to or greater than the capacity obligation over the obligation period, and;

### **Enhancement #3: Expand Participation to Generator-Backed Capacity Imports**

As indicated in the 2021 Annual Acquisition Report, the Capacity Auction will serve as a flexible mechanism to meet short-term Resource Adequacy needs over the next several years with targets that will be growing in future years. One of the objectives of the proposed Capacity Auction enhancements is to increase competition by expanding participation in the auction to generator-backed capacity imports.

All enhancements were further described in the Technical Panel education presentation found [here](#). For additional information, the 2022 Capacity Auction Enhancement [Design Document](#) is available on the Resource Adequacy Engagement webpage.

### **Stakeholder Feedback**

At the April 19, 2022 Technical Panel meeting, the Technical Panel voted to post the propose amendment for stakeholder comment.

Stakeholder feedback was submitted by:

- Advanced Energy Management Alliance (AEMA)
- Enel X (Enel North America)
- Ontario Power Generation
- Rodan Energy
- Voltus Energy Canada

Copies of all stakeholder submissions along with IESO responses can be found on the Technical Panel [webpage](#).

In response to the feedback received during the technical panel meeting on April 19<sup>th</sup>, in the written submissions noted above and during meetings held between the IESO and members of the HDR community the following changes have been made to the proposed market rule amendments:

- Chapter 7 section 18.3.1 – the word “full” was added to the first sentence in the subsection and the final sentence was removed as it was redundant.
- Chapter 7 section 19.1 – missing italicization was applied to defined terms.
- Chapter 9 sections 4.7J.2.1B, 4.7J.2.1C & 4.7J.2.1D - the wording was adjusted to ensure conformity between both charges. The word “maintain” was added to all sections and the wording has been adjusted to “the day-ahead commitment process, in the pre-dispatch hour or in the real-time market.”
  - “for every hour of the *availability window* it fails to submit and maintain [*demand response energy bids/energy offers*]...in the amount of their *capacity obligation* in the day-ahead commitment process, in the pre-dispatch hour or in the *real-time market*”
- Chapter 9 section 4.7J.2.1D – the Capacity Obligation Standby Availability Charges section has been revised. The standby availability charge will now only apply during peak months. This charge will also now only be applicable for the first 25 standby notices which are issued to an hourly demand response resource during those peak months each obligation period. The charge will be equivalent of five times the applicable availability payment and will be applicable for every hour of the availability window in which it fails to submit and maintain demand response energy bids in the amount of their capacity obligation in the day-ahead commitment process, in the pre-dispatch hour or in the real-time market during the peak months.

Previously as part of the Resource Adequacy Engagement the IESO held a series of stakeholder sessions to discuss the evolution of the Capacity Auction. Materials from these sessions including presentations and stakeholder feedback is available on the [Resource Adequacy Engagement webpage](#).

## **Panel Action and Next Steps**

The IESO recommends that the Technical Panel vote to recommend the proposed market rule amendment MR-00469-R00 to the IESO Board of Directors with a proposed effective date of June 27, 2022. These amendments will be applicable for the December 2022 pre-auction and obligation periods.

### **Accompanying Materials**

- Market Rule Amendment Proposal Form - MR-00469-R00 – Version 3
- Market Manual 4.2 - Submission of Dispatch Data in the Real-Time Energy and Operating Reserve Markets
- Market Manual 4.3 - Real Time Scheduling of the Physical Markets
- Market Manual 5.5 - Physical Markets Settlement Statements
- Market Manual 12.0 - Capacity Auctions
- Market Manual 7.2 - Near-Term Assessments and Reports
- Market Manual 7.3 - Outage Management
- IESO Charge Types and Equations

Adam Cumming