

Memorandum

To: Technical Panel
From: IESO Market Rules Group
Date: June 7, 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](#).

Annually, the IESO presents a series of proposed enhancements that provide incremental improvements and modifications to the Capacity Auction. The proposed changes for the 2022 Capacity Auction are intended to increase competition and competitiveness, clarify participation expectations and incent improved performance from all resource types.

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. The IESO will apply the resource-specific capacity qualification methodologies to derive an 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;
- More flexibility for resources secured in the auction to schedule tests;
- Stronger availability performance requirements to incent resources to be available and reliable at times of need; and,
- 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.

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 with growing targets 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 May 17, 2022 Technical Panel meeting, the Technical Panel voted to post the proposed amendments for an additional two weeks of stakeholder comment.

Stakeholder feedback was submitted by the Advanced Energy Management Alliance (AEMA). The IESO also received statements in support of AEMA’s feedback from Enel North America

(Enel X) and Voltus Energy Canada. Copies of stakeholder submissions along with the IESO response can be found on the Technical Panel [webpage](#).

The IESO has issued responses to all feedback provided during the stakeholder engagement, and the April 19 Technical Panel request for broader stakeholder feedback and comment. A number of revisions were made to the initial proposal based on that stakeholder feedback.

Materials from the stakeholder engagement including presentations and stakeholder feedback are available on the [Resource Adequacy Engagement webpage](#).

In addition to comments made on the proposed market rule provisions, the IESO notes comments received from the demand response community on participation model aspects that are outside the scope of the proposed enhancements. These comments pertain to topics on which previous stakeholder engagement has occurred and in areas that could form part of future enhancements related to Capacity Auction participation.

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 July 20, 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
- IESO Response to Stakeholder Feedback
- Mapping of Market Rule & Market Manual amendments to design enhancements document