

# Response to Feedback: Market Rule Amendment Form (MR-00469-R0)

## Response to Broader Stakeholder Comments

At the May 17, 2022 Technical Panel meeting, the Technical Panel voted to post the proposed amendment for an additional two weeks of stakeholder comment.

Stakeholder feedback was submitted by Advanced Energy Management Alliance (AEMA). The IESO also received statements in support of AEMA's feedback from both Enel North America (Enel X), and Voltus Energy Canada.

The IESO's response to feedback is as outlined below.

### Loss of Payments for Testing

**Market Rule Reference:** Chapter 7, section 19.4.15

Stakeholder Feedback:

- For the newly introduced Capacity Auction Capacity Test, payment should be included for Hourly Demand Response (HDR) and Dispatchable Load resources as they will be administratively scheduled, and they do not receive energy payments similar to the other resources.

IESO Response:

- The Capacity Test is self-scheduled, not administratively scheduled. Out-of-market, administrative payments were available to HDR and Dispatchable Load resources for test activations under the previous capacity test model because, under that model, tests were scheduled by the IESO. The new self-scheduled model provides participants with the flexibility to demonstrate their capability while minimizing operational impacts.
- All capacity auction participants are required to demonstrate their capability to provide capacity through testing.

- No capacity auction resource will be eligible for capacity test payments associated with Capacity Tests under the proposed model.
- Capacity auction resources may include costs associated with a Capacity Test in their capacity auction offers.

## **Shift from ICAP to UCAP**

**Market Rule Reference:** Chapter 7, section 18.2.1.2a

Stakeholder Feedback:

- AEMA and its members do not support shifting minimum capacity qualification requirements from ICAP to UCAP for the demand response resources.

IESO Response:

- The minimum capacity requirement has not changed in that it reflects the existing requirement that all IESO market participants must be capable of providing at least 1 MW of capacity in the energy market in order to participate in the auction.
- The purpose of the transition from ICAP to UCAP is to establish a common standard for comparing the capacity contributions from different resource types. This common standard will apply to capacity assessments, which must continue to respect the minimum energy market offer requirements.
- Qualifying resources on a UCAP basis is a well-established approach in other capacity markets.

**Market Rule Reference:** Chapter 7, section 18.2.1.2a

Stakeholder Feedback:

- AEMA and its members do not support the current equation for UCAP for HDR and Dispatchable Loads. The IESO continues to not include line losses in the UCAP equation for demand-side resources. In doing so, the IESO is failing to acknowledge capacity being delivered to the system by these resources to both its own and these resources detriment.

IESO Response:

- The IESO understands the position of AEMA with respect to the incorporation of line-losses into the capacity qualification methodology. A balanced assessment of the relative merits and feasibility of this approach was beyond the scope of the present amendment proposal. The capacity qualification methodologies proposed yield a resource adequacy value consistent with the IESO's planning requirements.

## Augmented Availability Charge

**Market Rule Reference:** Chapter 9, sections 4.7J.2.1B; 4.7J.2.1C

Stakeholder Feedback:

- AEMA and its members continue to request transparency on how the ten times availability charge was determined.

IESO Response:

- The IESO has proposed the Augmented Availability Charge as an incentive for resources to ensure that their obligated capacity is available leading up to and during an emergency operating state.
- Existing charges have historically failed to provide adequate incentive.
- The proposed Augmented Availability Charge was set to reflect the amplified seriousness of a failure to make obligated capacity available during times of acute system need.

## Standby Availability Charge

**Market Rule Reference:** Chapter 9, section 4.7J.2.1D

Stakeholder Feedback:

- The fundamental structure of this penalty is flawed and will not incent the right behaviour.
- The trigger for the penalty (\$100) was an agreed upon administrative trigger to ensure demand response resources were available; by tying the penalty to an administrative trigger the participation model of the demand response resource has changed. The trigger was also created at a time when pricing was consistently lower, and the \$100 threshold was much less common. Market participants did not agree to the frequency of this trigger nor having it tied to any penalty.

IESO Response:

- The IESO is not aware of any reasons warranting the assertions that the design of the proposed Standby Availability Charge is fundamentally flawed or that it will provide an incentive for undesirable behavior.
- In the existing market, HDR resources are placed on standby when the pre-dispatch energy price reaches \$100/MWh. This pre-dispatch price indicates the potential for limited supply in real-time.
- \$100/MWh was adopted in May, 2021 as the threshold at which HDR resources should be placed on standby in order to ensure their capacity is available to manage system conditions in real-time.

All other capacity resources are expected to maintain their bids/offers from day-ahead pre-dispatch through real-time irrespective of the \$100/MWh threshold.

- HDR resources would only be subject to the proposed Standby Availability Charge for the portion of their obligated capacity they fail to make available, when they are placed on standby during the peak months of each obligation period. This charge is capped to 25 instances of standby notices during peak months, to align with the qualification methodology of other resource types such as dispatchable loads.
- The Standby Availability Charge serves as a proportionate proxy for the Availability De-rating Factor (ADF) that applies to all other capacity resources as part of their pre-auction qualification, but cannot be calculated for HDR resources.
- HDR resources will be incentivized to 'self-qualify' in such a manner to ensure that their obligated capacity can be made available when a standby notice is issued during peak months so as to avoid being subject to an application of the Standby Availability Charge.

## **Threshold Change from 20% to 10%**

**Market Manual Reference:** Market Manual 12, section 5.3.3

Stakeholder Feedback:

- This change should be paused until the issues that negatively impact performance of demand response resources are fixed (inability to submit outages; continuance of an in-day adjustment; incorrect measurement of HDR resources; mandatory resource-level in-day adjustment).
- Depending on the size of a single load within a resource, a single contributor outage could result in a resource's performance being below 90% before an event even starts. The in-day adjustment factor could also cause a resource to fail before an event starts if the baseline is close to the capacity commitment.

IESO Response:

The IESO does not believe the issues AEMA identifies as negatively impacting performance of demand response resources warrant delaying the proposed market rule amendment. With respect to each of the points identified, the IESO offers the following general responses.

### Impact of single contributor on outage:

- HDR resources are responsible for managing their contributor portfolios in such a way as to ensure they are able to satisfy their capacity obligations.

- In the case where a contributor suffers an outage prior to the activation hour, the existing baseline methodology appropriately adjusts the resource's baseline to reflect the reduced consumption.

Inability to submit outages:

- The non-performance event management process is established and described in Market Manual 7.3: Outage Management.
- Demand response resources are currently able to provide outage information at a resource level

Incorrect measurement of HDR resources:

- IESO conducted a stakeholder engagement to review accuracy of the HDR baseline in 2021.
- The review found that the current baseline predicts load within an average of 4.6% of actual load. This prediction is strong and aligned with results from studies in other jurisdictions.

Continuance of in-day adjustment:

- The baseline methodology review found that the in-day adjustment has a positive impact on baseline accuracy for all baseline types tested.
- The review found that removing the in-day adjustment results would result in under-estimation of actual load, meaning resources would be credited with delivering less capacity than if the in-day adjustment were applied to the baseline calculation.

Mandatory resource-level in-day adjustment:

- The review found that moving to a contributor-level application of the baseline decreased baseline accuracy by as much as 4%. This deviation is attributable to the cap on the in-day adjustment.

## **Introduction of the Performance Adjustment Factor**

**Market Manual Reference:** Market Manual 12, sections 3.3; 5.3.3

Stakeholder Feedback:

- Stakeholders have noted that applying the Performance Adjustment Factor (PAF) at the HDR Resource level is both unprecedented in Capacity markets in North America and exposes all HDR aggregators and the IESO to increased risk. Poor performing contributors will be able to move between aggregators each season to avoid penalties and existing contracts, which were signed prior to these rules being drafted will not be able to prevent this behaviour.

- Stakeholders again urge the IESO to apply the performance adjustment factor at the contributor level to incentivize the right behavior by all parties.

IESO Response:

- Application of performance adjustment factors (PAF) is a fundamental component of deriving a UCAP for qualification purposes.
- The IESO qualifies capacity auction resources at a resource level. HDR resources are responsible for managing their own contributor portfolios.
- All capacity auction resources should ensure they are able to perform against their submitted ICAP values so as to avoid a PAF being applied for future auctions. In the case of HDR resources, this may involve vetting and managing the contributors included in the portfolio. It is appropriate for an aggregator to assume this responsibility over its portfolio.