

Stakeholder Feedback and IESO Response

Capacity Auction Enhancements – January 26, 2023

Following the January 26, 2023 Capacity Auction Enhancements engagement session, the Independent Electricity System Operator (IESO) invited stakeholders to provide feedback on the materials presented.

The IESO received feedback from the following stakeholders:

- Advanced Energy Management Alliance

This feedback has been posted on the [Capacity Auction Enhancements](#) engagement webpage.

Note on Feedback Summary and IESO Response

The IESO appreciates the feedback received from stakeholders. The table below responds to the feedback received and is organized by each topic. This document is provided for information purposes only. It does not constitute, nor should it be construed to constitute, legal advice or a guarantee, offer, representation or warranty on behalf of the IESO.

Performance Threshold for in-period adjustment

Feedback	IESO Response
<p>Stakeholders requested a 10% performance threshold be applied in the determination of the in-period adjustment for hourly demand response (HDRs) resources. Stakeholders suggest this is appropriate because a 10% threshold applies to the calculation of the performance adjustment factor and because a compliance dead band applies to dispatchable resources in the energy market, which acts as a de facto dead band for the availability derate that uses historical bids/offers for all non-HDR capacity resources.</p>	<p>The IESO has previously stated, in responses to stakeholder feedback on the Capacity Auction enhancements posted on October 14, 2021, that the difference between performance thresholds for HDR (10%) and other resources (5%) is to recognize an inherent degree of uncertainty in how HDR performance is measured, which compares actual load against an estimate of load in the absence of an activation (a “baseline”). Since the same data that is used in the assessment for the in-period adjustment is also used in the assessment for the PAF, the same threshold should apply to both design elements.</p> <p>After careful consideration of this more recent stakeholder feedback, the IESO has revised the design of the in-period adjustment to include a 10% threshold. For more details and examples, see the updated HDR Capacity Qualification design memo posted at the top of the Capacity Auction Enhancements engagement webpage.</p>

HVAC Resources

Feedback	IESO Response
<p>Stakeholders are concerned with the IESO’s direction in the October 2021 - 2022 Capacity Auction Enhancements - DRAFT, stating that all resources should be qualified on the basis of Ambient Conditions. Stakeholders suggest that this will lead to the removal of all HVAC resources from HDR portfolios and are questioning whether that is the IESO’s intention.</p>	<p>The IESO’s capacity auction is intended to procure capacity that is available on each business day in a defined 6-month period. It is up to the discretion of auction participants to determine whether the resource they offer into the auction can meet the requirements of the capacity obligation.</p>
<p>Stakeholders believe that a weather-sensitive resource class would enable heavily HVAC dependent HDRs to qualify</p>	<p>The IESO is willing to explore this suggestion, in the context of other potential enhancements, as part of upcoming discussions on future enhancements to the Capacity Auction.</p>

Feedback	IESO Response
a more limited capacity product in the peak cooling and heating months.	

Outage Management

Feedback	IESO Response
<p>Stakeholders state that having a more comprehensive tool to manage outages (and thus performance risk) is a pre-requisite for support of the in-period adjustment.</p> <p>Stakeholders feel the outage management system for HDR resources has very limited application and does not assist in managing risks related to contributor equipment and metering outages.</p> <p>Stakeholder suggest the outage management process is required for, at a minimum:</p> <ul style="list-style-type: none"> - Meter outages spanning the demand response event - Contributor key equipment outages 	<p>All resources are required to manage the risk of key equipment outages.</p> <p>The IESO has engaged with stakeholders since August 2022 to develop a contributor outage solution based on a specific scenario brought forward by stakeholders: a contributor’s outage negatively impacting the baseline calculation during the In-Day Adjustment Factor (IDAF) window due to load being absent and returning within one hour of the activation event.</p> <p>Stakeholders have correctly noted that meter outages beginning prior to the event where the meter returns into service following the beginning of the IDAF window or during the event are eligible to be addressed using the solution.</p> <p>The IESO is open to discussing ways to address concerns related to meter outages extending through an activation and the implications of the current Validation, Estimation and Editing (VEE) criteria as part of future auction enhancements. In some cases, a contributor meter outage may qualify as an outage caused by a third-party market participant that may warrant a re-scheduled capacity testing week, as outlined under “Allowable Exceptions” in Design Memo 2.1 – Testing Framework.</p>

Testing Framework

Feedback	IESO Response
Stakeholders comment that they remain supportive of maintaining an out-of-	As stated in a previous feedback response document, all Capacity Auction resource types may incur costs as a

Feedback	IESO Response
<p>market activation payment for HDR resources for conducting the capacity test, since all other resources are compensated for their participation in the capacity test through the energy market. An out-of-market activation payment, similar to the one that currently exists, should be applied in the new testing framework.</p>	<p>result of a test activation, that are not directly recovered through market revenues or other recovery mechanisms. For example, a gas resource that bids below its marginal energy cost in order to ensure dispatch to satisfy testing requirements. HDR resources that are activated out-of-market for dispatch tests and/or to address a system emergency operating state, will still be eligible for out-of-market payments.</p>
<p>Stakeholders believe the significant impact of the in-day adjustment factor on HDR participants' baselines add a factor of unpredictability that cannot be accounted for prior to the capacity test. Given this unpredictability, it is necessary to maintain at minimum, the 90% dead band for HDR resources for the In-Period Adjustment and Performance Adjustment Factor assessments</p>	<p>As stated in IESO's response to stakeholder feedback above, after careful consideration, the IESO has revised the design of the in-period adjustment to include a 10% threshold. For more details and examples, see the updated HDR Capacity Qualification design memo posted at the top of the Capacity Auction Enhancements engagement webpage.</p>

Charges and true-ups

Feedback	IESO Response
<p>Stakeholders request clarification on how the availability true-up mechanism is applied to HDRs with an in-period adjustment applied. Can the true-up be used to recover payments lost due to the in-period adjustment or is the mechanism limited to the recovery of availability charges relative to UCAP resulting from an in-period adjustment?</p>	<p>The IESO is preparing a document to provide an overview and examples of the application of the availability true-up mechanism to provide greater clarity and understanding of how this mechanism is expected to function. This document will be posted in advance of the March 2023 engagement session.</p> <p>The true-up will enable the recovery of availability charges that have not been accounted for in the calculation of the in-period adjustment charge. Availability charges that have been accounted for in the calculation of the in-period adjustment charge are not recoverable. This is because all in-period adjustment charges must be recovered by the IESO to ensure capacity payments for the entire obligation period do not</p>

Feedback	IESO Response
	exceed the amount that can be earned based on the revised obligation.

Standby trigger review

Feedback	IESO Response
Stakeholders are supportive of adjusting the current standby trigger of \$100 and suggests that moving forward, the approach to determining the standby trigger should be revisited to develop a dynamic and sustainable methodology.	The IESO appreciates the recommendation regarding a dynamic price trigger and is willing to explore this suggestion as part of upcoming discussions on future enhancements to the capacity auction.

HDR Capacity Qualification

Feedback	IESO Response
Stakeholders highlight that the current design concentrates risk on the capacity test for HDR resources. Stakeholders have put forth suggestions that would be manageable with changes to the outage process, application of dead-bands, and enabling the enrollment of multiple HDR resources in one zone. Stakeholders are concerned that cost-effective capacity will not be procured due to the risk structure created.	<p>The final design for HDR capacity qualification relies on the use of the most recent seasonal, historical capacity test performance data due to a lack of another source of reliable data upon which, an availability de-rate can be determined.</p> <p>The final design for the revised testing framework includes multiple features that can assist all resources, including HDR resources, in conducting a successful capacity test, such as:</p> <ul style="list-style-type: none"> • notice of testing will be issued in first two months of obligation period, where possible; • 10 business-day advance notice leading up to the capacity testing week, • 5 business-day testing period to conduct the capacity test. • Clarity provided regarding the “Allowable Exception” scenarios that would warrant a re-scheduled testing week <p>Additionally, after considering stakeholder feedback, the IESO has revised the design of the in-period adjustment to include a 10% threshold and will be implementing a</p>

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	<p>new solution for HDR resources to manage the potential negative impacts of large contributor forced outages.</p> <p>Any further recommendations, such as enabling the enrollment of multiple resources in one zone can be explored as part of upcoming discussions on future enhancements to the capacity auction.</p>

Performance Adjustment Factor

Feedback	IESO Response
<p>Stakeholders are supportive of the IESO’s decision to extend the stakeholder engagement period to discuss design and application of the PAF. Stakeholders expressed it is important the PAF discussion timelines are clearly communicated and that continued PAF discussions do not impact other HDR stakeholder priorities.</p>	<p>The IESO intends to finalize the PAF design for its inclusion in the 2023 Capacity Auction. This will allow the IESO to then focus discussion with stakeholders on future auction enhancements.</p>

General

Feedback	IESO Response
<p>Stakeholder suggests the IESO publish a document consolidating all the proposed changes, including examples to illustrate the new rules.</p>	<p>The IESO has consolidated the posting of all the most up to design memos under the heading “2023 Capacity Auction Enhancements Design Memos” near the top of the Capacity Auction Enhancements page. The example document for the availability true-up mechanism for HDRs can also be found in this section.</p>