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Capacity Auction Future Enhancements

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Today's Discussion

- Discuss key lessons learned from the 2023 Capacity Auction (CA) Enhancements process
- Discuss the objectives for engaging with stakeholders on future CA Enhancements
- Provide information on scoping criteria, timelines, and decision-making considerations for ongoing future enhancements

Agenda

- 2023 Capacity Auction Update and Lessons Learned
- Draft Objective Statement
- Future Auction Enhancement Considerations
- Potential Capacity Auction Enhancements
- Next Steps



2023 Capacity Auction Update and Lessons Learned

2023 Capacity Auction Update

- Stream 1: Market Rules (MR) and Market Manuals (MM) supporting enhancements are approved and effective for the 2023 auction
- Stream 2: Technical Panel voted to recommend MR amendments to the IESO Board for approval
- Qualification request submission window for the 2023 Capacity Auction is currently open, closing on September 29
- 2023 Capacity Auction runs November 29-30

2023 Lessons Learned (1 of 2)

- Lessons learned from the 2023 Capacity Auction Enhancements engagement include:
 - Enhancements take time to design, discuss with stakeholders, approve, and implement
 - Engagement on enhancements that require Market Rule changes **must be completed by no later than March** of the upcoming November/December auction to receive the necessary Technical Panel and IESO Board approvals
 - Enhancements requiring settlement, IESO IT systems, modelling, etc. changes could require more time to implement

2023 Lessons Learned (2 of 2)

- Engaging each month leaves limited time to incorporate stakeholder feedback into design decisions and engagement materials for the next monthly session
- Focusing only on enhancements that can be implemented for the next auction limits our ability to consider higher-value, holistic and longer lead-time changes
- Others?



Draft Capacity Auction Enhancements Objective Statement

Scoping Capacity Auction Enhancements

- Evolving the Capacity Auction could include changes aimed at enhancing competition, reliability, transparency, accessibility, administrative efficiency, resource performance, resource diversity, accuracy and more
- To provide clarity on what enhancements are intended to achieve, what can offer the most value, and to aid in prioritization and scoping of enhancement options, a draft objective statement has been developed

Enhancements Draft Objective Statement

"Future Capacity Auction enhancements should help ensure the Capacity Auction can adapt to evolving market conditions and continue to be a competitive, transparent and accessible marketplace for a diverse range of capacity resources."

Feedback on Enhancements Draft Objective Statement

- Does the statement reflect the value that the Capacity Auction contributes to the Resource Adequacy Framework and IESO-Administered Markets?
- Does the objective make clear how enhancements should be considered based on how they can contribute to the Capacity Auction's success?



Future Auction Enhancement Considerations

Future Auction Enhancement Considerations (1 of 2)

- As stated in the engagement plan, the IESO's aim is to investigate enhancements that can contribute to achievement of the objective statement and that offer the highest value in terms of IESO, participant, and ratepayer outcomes
- Value can be derived from enhanced competition, reliability, transparency, accessibility, administrative efficiency, resource performance, resource diversity, accuracy and more
- Where possible, IESO will seek stakeholder support in quantifying the value of a potential enhancement (i.e., cost savings, MWs, etc.)

Future Auction Enhancement Considerations (2 of 2)

- High-value enhancements supported by a cost-benefit analysis are ideal candidates for further investigation, and more likely to receive supporting IESO resources
- Enhancement opportunities that are larger in scope and require IESO resources must be evaluated against other business priorities. This could include enhancements that require:
 - IT system modifications
 - Market Rule amendments
 - Incremental planning and reliability modelling

IESO's Role in the Energy Transition

- Significant Ontario electricity trends and policy developments will shape the IESO's engagement with the sector in the coming months and must be considered in the evolution of the Capacity Auction
 - IESO's Role in [Power Ontario's Growth Report](#) Actions
 - Outcomes of the [Electrification and Energy Transition Panel](#)
 - IESO's own plans to ensure reliability and resource adequacy as electrification accelerates and energy demand grows
 - Continually assessing the role of the Capacity Auction and Resource Adequacy Framework in meeting Ontario's resource adequacy needs

Interrelated IESO Engagements

- The IESO is committed to an open, two-way dialogue with stakeholders and communities to help understand their views about proposed changes that may affect them
- Some enhancements may be better suited for other active IESO engagements. For example, one or more of the following:
- [Demand-Side Vision](#) (DSV)
- [Distributed Energy Resources \(DER\) Market Vision and Design Project](#)
- [Enabling Resources](#)

Demand Side Vision (DSV) Engagement

- DSV engagement will work with demand side participants to consider issues specific to their participation in IESO markets and programs
- Includes discussion on topics primarily related to demand-side participation in the energy market and IESO programs and how incremental participation can be unlocked
- DSV and Capacity Auction (CA) Enhancements engagement will remain closely coordinated



Potential Capacity Auction Enhancements

Recent Stakeholder Feedback (1 of 4)

- Engaging with stakeholders better positions the Capacity Auction to succeed and meet its business goals
- A list of enhancements previously suggested by stakeholders has been compiled for stakeholder review and input, these are shown in the tables that follow this slide
- Future discussions on these stakeholder suggestions may take place within the Capacity Auction Enhancements and/or DSV engagement

Recent Stakeholder Feedback (2 of 4)

Enhancement Suggestion

Review of audit parameters/process

Review of reference technology that is the basis of the Reference Price

Understanding how import and virtual zonal limits are determined

Consider reducing dispatch test to one per obligation period

Evaluate the benefits of enabling monthly buyouts

Review of 4-hour duration requirement for energy storage

Benefits of enabling a weather-sensitive resource class and/or moving to four seasonal obligation periods to more accurately value HVAC load contributions

Recent Stakeholder Feedback (3 of 4)

Enhancement Suggestion

Provide more flexibility options for participants to manage/adjust commitments

Enable HDR participants to register more than one resource per zone

Additional review of in-day adjustment factor in baseline methodology

Reduce minimum resource requirement to less than 1 MW

Introduce performance-based incentives

Utilize resource-specific data to determine EFORD for storage resources

Include loss factors in UCAP methodology for demand response resources

Recent Stakeholder Feedback (4 of 4)

Enhancement Suggestion

Various suggestions that increase scope of contributor management process

Review of HDR standby trigger process

Additional Enhancement Information Requested

- Additional information on the enhancements suggested by stakeholders would be helpful to better understand the proposed change:
 - How would this enhancement improve CA participant and ratepayer outcomes?
 - Would the benefits of this enhancement be quantifiable (i.e., improved resource performance, reliability, ratepayer value, etc.)?
 - Which of the following categories best describes how this change would enhance the Capacity Auction: *competition, reliability, transparency, accessibility, administrative efficiency, resource performance, resource diversity, accuracy, general/other?*

IESO Potential Enhancements (1 of 2)

- IESO's plans for evolving the Capacity Auction will be considered along with proposed stakeholder enhancements
- Some future enhancements the IESO is considering are shown in the tables that follow this slide

IESO Potential Enhancements (2 of 2)

Enhancement Suggestion

Expanding participation to wind, solar, hybrid, other resources

Comprehensive review of the demand curve

Semi-regular review of capacity qualification methodologies

Updates to some requirements for generator-backed imports

Benefits of rebalancing auctions

Ensure accurate and reliable performance during an emergency event



Recap and Next Steps

Summary of Today's Discussion

- Enhancements enable the auction to evolve, but they take time to implement effectively, after robust stakeholder engagement
- Lessons learned and prior stakeholder feedback are both important to inform future enhancement objectives
- Stakeholder input on enhancement details, cost-benefit analysis, scoping and prioritization will support consideration of both near and longer-term enhancements and continuous improvement of the auction
- The [Engagement plan](#) provides additional context on background, scope, and next steps

Next Steps

- Using the feedback form provided, stakeholders are invited to submit questions and comments by October 6th on the following items:
 - Engagement plan
 - Lessons learned from 2023 Capacity Auction Enhancements engagement
 - Draft objective statement
 - Previously suggested enhancements
- November 2023 Engagement Session
 - IESO to present summary of enhancement details and discuss additional steps required

Thank You

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