

Member Vote and Rationale – Enhancement to the 2022 Capacity Auction

IESO Technical Panel, June 14, 2022

The vote to recommend the proposed market rule amendments (MR-00469) for consideration to the IESO Board of Directors were defeated at the June 14, 2022 Technical Panel meeting.

MR-00469 – Enhancement to the 2022 Capacity Auction

TP Member	Vote and/or Rationale
Robert Reinmuller (Transmitters)	Abstained: I abstained in my vote mainly due to the implementation gaps that exist. I feel that there is directional agreement on the process; however market participants feel strongly about the gaps in implementation and risks that remain unknown or unexplained. IESO needs to spend more time with the most affected market participants and ensure that the process is understood and risks are managed from a system and resource perspective. The process is not broken but it is unclear and if it cannot be applied by market participants, it presents a risk that remains unmitigated.
Indra Maharjan (Consumer)	Against

TP Member	Vote and/or Rationale
Forrest Pengra (Residential Consumer)	<p data-bbox="565 191 1013 218">Against: My rationale is as follows:</p> <ol data-bbox="565 247 1377 1325" style="list-style-type: none"><li data-bbox="565 247 1377 352">1. There seems to be great confusion and anxiety about both the implementation and participation under the proposed framework<li data-bbox="565 382 1377 730">2. Given the significant supply issues in Ontario over the next several years, I can't understand why we are creating a beast that seemingly discourages MPs from participating. Sarah Griffiths hit the nail on the head when she described the proposed amendments as being overly complex, the most she's seen. While I can't speak specifically to the other ISOs, I can appreciate the concerns of the HDR MPs, particularly inconsideration of needing significant supply throughout the mid-decade.<li data-bbox="565 760 1377 1108">3. Given the above, I have concerns about how Ontario will address supply without an active and engaged DR portfolio. It can be one of the most cost effective means for reducing load and improving grid condition/capacity. This is particularly true when you look across the entirety of the Ontario landscape, as large, municipally owned facilities could quite easily become part of a larger HDR aggregate. Hourly demand response, opens the door to large users [like municipalities] to be able participate in a market, while helping grid conditions.<li data-bbox="565 1138 1377 1325">4. Not having a clear understanding of revenues/penalties will not only disincentivize existing participants, it will discourage others from considering Ontario. Some risks are worth assuming, particularly for aggregators, but at this point I don't know that the reward will balance it out.

Nick Papanicolaou
(Consumer)

Against. Please accept the key points below for consideration as to why I voted no;

- During the TP meeting, it was articulated by the IESO that the standby availability charge is to incent ensuring the capacity is available during a "time of need". In my example, I expressed that the Monday June 13th, a standby notice was issued and on this day there was no apparent reliability concern and a peak Ontario Demand of 17,300 MW. Should this condition exist during peak months, and the current metrics suggest it will, Standby Availability charges will be applied to HDR's who at times need to schedule downtime (outage) periods and reduce their offers accordingly. HDR providers need to be in alignment with the predictability of "a time of need" and plan downtime accordingly to ensure availability during real times of need. The current threshold for the standby notice is not in alignment with a time of need and does not represent the market condition and accordingly should not represent issuance of penalties to HDR's.
- The Available charge on HDRs to account for ICAP / UCAP of other types capacity (Gen / DL) is being applied and it is believed will ultimately introduce excessive risk for current and historically good performers of HDR and cause some HDR providers to reduce offers or not participate in the future capacity auctions. This increase risk is coupled with the loss of payment for test periods.
- HDR's are a very different capacity offer than Gen and the attempts to align financial performance and the difficulty in doing so suggests they do not necessarily belong in the same program. The program rules should identify how to ensure the max capacity can be offered at all times and incentivize the opportunity to do so, it is not clear the current program rules capture this.
- AEMA's comments captures the above but the example of June 13th standby notice; and the issuance of standby notices each successive day this week, highlights the need for alignment to ensure HDR provides can plan production needs and manage the capacity baseline and associated risks. I shared a comparison table in a private meeting with the IESO describing how while nothing has changed in operations at Lehigh; A historical over performer during tests and emergency periods, the new program rules would put Lehigh at a financial disadvantage compared to other capacity providers and therefore may not successfully participate in future capacity auctions.
- HDR providers appreciate the opportunity to offer capacity, manage operations and reduce total electricity

TP Member**Vote and/or Rationale**

costs. It is understood that allowing for imports to increase the available capacity is in line with the intent of the new program rules, it would be unfortunate if historical good performers of HDR can no longer participate due to the increased risks and undue financial penalties where the net result is increased total electricity costs of Ontario's industrial / manufacturing sectors HDR providers while imports are occurring.

Emma Coyle
(Generator)

Abstained: Aspects of the proposed amendments appear well-considered and congruent with the existing market rules and overall design, however members of the Panel and non-member stakeholders attending virtually raised compelling concerns with respect to the use of a \$100 price trigger for HDR resource activation. IESO staff appeared to recognize the concern and expressed willingness to revisit the issue, but it's my view that these issues need to be settled before rules come to the Technical Panel. A vote to recommend a set of proposed amendments expected to be the subject of additional consultation is not an effective endorsement of the rule package, especially when commitments for further consideration deal with aspects most troubling for affected participants. The IESO did not present evidence that the \$100 price was indicative or useful for forecasting periods of system need during which the IESO would want to have HDR resources on standby. I have other concerns with respect to the CA rule amendment package but these concerns relate to the design, not the drafting or the IESO's engagement of stakeholders. If they were to be challenged further the appropriate venue for that challenge would be the OEB.

Jennifer Jayapalan
(Energy Storage)

Against: With input from the Energy Storage community, I voted NO, as I do not feel the market rules as they are written meet the intent of the design changes. The Capacity Auction Enhancements were to introduce a capacity qualification process for all participating resources, expand participation and competition in the auction to generator-backed capacity imports and improve availability and delivery performance of participating resources for the December 2022 auction. While I understand and appreciate that changes are required and support many aspects of these market rule changes, I do not feel the market rule changes as presented will meet the intention of improving reliability and delivery performance of all participating resources.

Reasons for the NO vote are summarized below:

- a. One of the objectives of the market rule changes was presented as “Ensuring alignment, balance and fairness between capacity qualification and performance assessment for different resource types.” Part #1 (Capacity Qualifications) and Part #2 (Performance Assessment Modifications) were presented as a wholistic design approach to ensure fairness among resources to meet the design intention of ensuring reliability. However, while the capacity qualification changes for direct participation resources using an availability derate and a PAF to calculate the UCAP vs ICAP align with the intent of the design, the changes to add penalties to HDR resources in lieu of the availability derate arguably do not ensure fairness and alignment between resources and unfairly add risk to HDR resources participating in the auction.
- b. The market rule changes do not support the objective to “Incent 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”.
 - i. While the Augmented Availability charge is appropriately linked to an EEA, the Standby Availability Charge is linked to a standby notice price threshold developed a number of years ago when gas prices were 20% of what they are today – it has not been sufficiently demonstrated that this reflects a time of system need.
 - ii. The market rules around the penalties being associated with a Standby Notice that are intended to incent

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	<p>proper behaviour by signalling a resource’s availability could have the opposite affect of increasing a resource’s risk to the point of either not being available at all on days of forced derate to not participating in the auction at a time when capacity is needed on the system.</p> <p>The Stakeholdering associated with these capacity auction enhancements insufficiently demonstrated a robust engagement process to draw upon for support of these rule changes.</p>
<p>Jason Chee-Aloy (Renewable Generators)</p>	<p>Against: I am casting a ‘no’ vote, re: MR-00469.</p> <p>My rationale is that I am concerned by: i) the issues stakeholders have raised throughout the IESO’s stakeholder engagement relating to potential amendments to the Capacity Auction (e.g., issues relating to stakeholder engagement process, fairness, transparency, etc.); ii) IESO’s responses and actions (or lack thereof) to address stakeholder issues (e.g., methodology to arrive at charges, etc.); and iii) mostly the lack of stable investment climate that is not being fostered through instilling confidence to asset managers, developers, financiers, and other stakeholders through IESO procurement initiatives (including Capacity Auctions and their associated rules, developing RFPs/contracts and their crucial terms and conditions, etc.) that are crucial to delivering needed supply (e.g., best ensuring maximum participants within Capacity Auctions, RFPs, etc.) that has been forecasted by IESO – especially considering that Ontario is in competition with other Canadian and U.S. electricity markets for development and investment capital.</p>

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Vlad Urukov (Generator)	<p data-bbox="565 191 1377 338">Abstained: Guided by the Technical Panel Terms of Reference, a vote on a market rule amendment is ultimately a contemplation on whether a proposed rule language meets the final design intent of a proposed change.</p> <p data-bbox="565 369 1377 594">As stated by the IESO in a memorandum accompanying the proposed Rule Amendment dated June 7, 2022, 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.”</p> <p data-bbox="565 625 1377 1444">While I acknowledge that in my review, the IESO has achieved a number of the objectives, including increased participation and competitiveness, in regards to clear expectations and improved performance, a number of questions remained outstanding ostensibly lacking an evidence based response. In specific, a number of TP members as well as observers raised concern with ongoing uncertainty regarding the impact of availability charges, particularly as related to the price trigger for standby notification and the 25 hour limit as applied to the computation of the charge. Motivated by an imperative to establish a level playing field (which is an appropriate objective) further analysis in regards to the appropriateness of the price trigger in the context of forecasted fuel costs and prices should be shared with the TP in order to demonstrate the overall robustness and appropriateness of the design. In summary, I abstained in order to seek further information that would validate the appropriate execution of the stated intent. I encourage the IESO to expeditiously address the outstanding items in order to proceed with the very important evolution of the Capacity Auction.</p>

TP Member	Vote and/or Rationale
Rob Coulbeck (Retailers or Wholesalers)	<p data-bbox="565 191 1373 380">Abstained: My rationale for abstaining on the Capacity Auction vote was with regards to the \$100 threshold for penalty. The threshold is too low in the current market environment where natural gas has been trading at \$8 USD. A multiple of the natural gas price might be a better metric.</p> <p data-bbox="565 407 1373 554">While I would like understand the logic behind how 10x availability charge, I do understand the need to know, from a forecasting standpoint, that resources with obligations are participating as contracted.</p> <p data-bbox="565 581 1373 728">I do understand the concern around implementing multiple changes for the upcoming Capacity Auction and wonder if there is a path forward that would layer in some of the changes over a two year period.</p> <p data-bbox="565 756 1373 1066">On the compensation for testing, generation resources that are testing will ensure their offers guarantee a positive test result and therefore generally offer at prices well below their cost. As a result, they are deemed to have made a profit and most if not all of their Generator Cost Guarantee is offset by market related "profits" as calculated using their must run offers. Therefore I have no issue with the lack of compensation for DR and HDR resources.</p>

Dave Forsyth
(Consumer)

Against: I vote to NOT recommend the proposed rule changes to the Capacity Auction for the following reasons:

1. The proposed rules would result in a wholesale change to the HDR participation model. This was not the intended outcome that was messaged when the proposed changes were first introduced to the stakeholder community. Outage management, a critical element of the HDR participation model was considered "out of scope" by the IESO. Changes of the magnitude in the proposed rules should be stakeholdered completely from a blank slate.

2. Many of the elements in the current rules that will remain if the proposed changes are implemented are not cohesive with the proposed changes. For example:

a. the standby trigger of \$100/MWh PD price was never intended to be a measuring stick for the Augmented Availability Charges. This trigger was stakeholdered and agreed by the group as a measure to ensure HDR resources were available in real time if PD price exceeded \$100/MWh. May 2022 Natural Gas at Dawn settled at \$9.5301/GJ; if this price remains constant there will be standby notices issued most summer days.

b. changes to the payments for tests that was previously stakeholdered and agreed upon are being eliminated in the proposed rule changes. The IESO mandates that tests be scheduled by HDR resources themselves by making changes to energy bids to induce dispatches "out of market". These tests should continue to be compensated as the HDR resources do not have any other vehicle to recover costs. The IESO stated the HDR resources should include this cost in their auction offers. No other resource has to consider this additional burden.

3. There are many additional elements that need to be included in any engagement to change the HDR participation model and I hope the IESO and the Board immediately start the discussion.

I do support the Enhanced Market Rule amendments that allow Resource-Backed Imports to participate in the Capacity Auction.

TP Member	Vote and/or Rationale
Joe Saunders (Distributor)	<p>Against: I voted against the motion for recommendation to the IESO Board, to amend Market Rule MR-00469-R00. At the March 22, 2022, Technical Panel (TP) Meeting IESO staff educated the TP members on the proposed amendments to the Market Rule. At the April 19, 2022, meeting the TP voted in favour to post for broader stakeholder comment and at the May 17, 2022 TP Meeting, the Technical Panel voted to post the proposed changes for an additional two weeks of stakeholder comment. The TP agreed on the framework for this Market Rule Amendment but there are a number of issues through the stakeholder process and TP members around the implementation of the rules, which have not been adequately addressed by IESO staff.</p>
Ron Collins (Energy Related Businesses and Services)	<p>For: I recommend MR-00469-R00 - 2022 Capacity Auction Enhancements to the IESO Board for consideration based on the following rationale:</p> <p>The proposed changes for the 2022 Capacity Auction ensure the capacity qualification process validates the level of resource a participant can offer to the market, reducing risk of capacity being unavailability. The proposed changes further enhance the performance and reliability of the acquired capacity resources. With the addition of Generator-Backed Capacity Imports the IESO is increasing competition in the market, creating a more competitive marketplace that can benefit both participants and rate payers alike.</p>

Sarah Griffiths
(Demand Response)

Against: The Demand Response community has been a long supporter of the procurement of capacity via an auction mechanism with the proper performance assessment framework – a comparable framework among resources, in which each resource can understand the rules and reasonably manage the risks of participation. The totality of the market rule amendment package put forward has changed the participation model of the Hourly Demand Response resource and the Market Rule Amendment package is not in line with industry standards, nor does it meet the intended goals of the Capacity Auction mechanism.

In summary:

- The cascading and compounding impact of the proposed changes are the issue with the package; each market rule change by itself may not be completely problematic, but put all together the participation model and the risk profile has significantly changed, with key items and tools 'out of scope' such as an outage management process for demand side resources and the inclusions of line losses, as examples.
- The amount of changes and the way the stakeholder process for implementation of the Market Rule Amendments unfolded adds to issues of investor confidence in this province and decisions will need to be made for participation in the December 2022 Capacity Auction and moving forward if these process improvements are not corrected.

Throughout the Technical Panel process, I have asked that certain Market Rule Amendments be pulled from the package to be adequately stakeholdered to ensure the right incentives are being created to meet the system needs, especially in times of emergencies.

I recommend that the totality of the comments submitted to the engagements and the Technical Panel, as well as the Technical Panel meeting minutes be reviewed to fully understand the issues brought forward by the Hourly Demand Response and Dispatchable Load communities.

These are the reasons I voted no in the vote to recommend, with the support of the DR community.

TP Member	Vote and/or Rationale
David Short (IESO)	I support the Market Rule Amendments that enabled the participation of Resource Backed Imports in the Capacity Auction. For