

Stakeholder Feedback Form: MRP Energy Detailed Design

Design Document: Market Power Mitigation

Feedback Due: July 24, 2020

Feedback provided by:

- Company Name: APPrO
- Contact Name: Dave Butters

The IESO is posting a series of detailed design documents which together comprise the detailed design of the MRP energy stream.

This design document is posted to the following engagement webpage: <http://ieso.ca/en/Market-Renewal/Energy-Stream-Designs/Detailed-Design>.

Stakeholder feedback for this design document is due on July 24, 2020 to engagement@ieso.ca

Please Let us know if you have any questions.

IESO Engagement

General Feedback on Detailed Design Document

APPPrO appreciates the opportunity to comment on the Market Power Mitigation (MPM) detailed design document. Getting the framework and the rules associated surrounding MPM for the future market is one of the most integral aspects of market renewal.

First, as mentioned in many of APPPrO's past submissions, success of market renewal will also require renewing IESO's governance and decision-making processes to better align with a renewed market and the new risks, obligations and associated rules that will be imposed on market participants. Design should avoid over-mitigation, promote price fidelity and minimize risk so that the market can signal efficient operations without imposing unnecessary costs. The IESO should consider simplifying the mitigation framework to reduce undue risk and ease administration for all parties.

Specific to market power mitigation, there needs to be further discussion as to how MACD's enforcement powers under Chapter 3 will play a roll with new MPM rules. APPPrO recommends that further dialogue is required on this matter so that market participants understand how MACD's authorities will interplay with those of the new MPM rules. More generally, APPPrO believes additional dispute resolution mechanisms may need to be implemented that focus specifically on market power mitigation issues. The current dispute resolution process may be unnecessarily burdensome and protracted for the purposes of resolving issues with respect to MPM related issues. Issues that arise a result of market power mitigation may require swifter resolution than what is currently afforded under Chapter 3. In light of a new mitigation framework, a new resolution process outside of Chapter 3 (or amendments to Chapter 3) may be required, that would provide market participants some indication about timing of issue resolution, resource intensity and what division of the IESO would have oversight over the new mitigation framework and potential disputes.

There needs to be transparency in the determination/declaration of NCA/DCA/LMP areas to allow the market participant the opportunity to assess mitigation risks. The new physical withholding process may result in excessive outage slip submissions and create an onerous process. This could be tedious and difficult for market participants and the IESO to manage.

It is important to establish a well defined interface and decision/appeal process between IESO and MACD including who performs the MPM review/audit to ensure there is no overlap to maximize efficiency and minimize costs for all concerned including the ratepayer:

- The IESO should revisit all terminology used in setting conduct and impact thresholds to explicitly state whether it is the "greater of" or "lesser of" as this is an important distinction which is not clear in the detailed design. This should be done prior to reference level negotiations with market participants.
- The rationale for the thresholds used for conduct and impact testing should be provided by the IESO. Some of the thresholds appear to differ from other jurisdictions or may not be suitable for certain resource types participating in the market and some seem inefficient and too restrictive, which may lead to over testing. Further APPPrO remains concerned that thresholds are being set by the IESO prior to any discussions with market participants on reference levels. Thresholds may need to be revisited after these discussions.

Second, in light of not having determined resource reference levels or begun those conversations, it is difficult for APPPrO to judge whether the proposed various thresholds are appropriate. As mentioned

in APPrO's submission dated April 27, 2018, if reference levels are not accurate and do not take into account actual costs then the conduct thresholds need to be more permissive in order not to unduly harm a generator by mitigating its offers and forcing it to operate at uneconomic levels. APPrO proposes that the IESO re-engage stakeholders on conduct thresholds after initial discussions have commenced on reference prices/costs.

Third, there exists a potential for new obligations under market rules to conflict with contract obligations. For example, some contracts require a facility to offer all of its contract capacity (energy) in the DACP (i.e. a must-offer obligation). With market renewal, this will become a contract obligation to offer energy in DAM. There is no contract obligation relating to operating reserve, and accordingly contract capacity was set without regard to the potential of supplying operating reserve. A gas-fired plant will typically have several different modes of operation, each of which has different operating characteristics (ramp rates, heat rates, energy output, etc.). While these plants are capable of offering operating reserve, this more flexible mode of operation results in a reduced maximum energy output. There will be times when it is not possible for a facility to meet its contract obligations if it is also required, under market rules, to offer operating reserve. The new market design must recognize that facilities have existing contractual obligations, and MRP cannot create a situation where it's impossible to meet both contractual obligations and market rules simultaneously.

Finally, there are concepts in this detailed design which have a certain degree of complexity and this written format does not lend itself well to properly convey what the IESO is trying to accomplish. APPrO encourages the IESO to adopt other processes which could include informational sessions with examples as to how the proposed market changes differ from the environment we operate in today.

Additionally, we wish to note that the absence of a stable capacity procurement/retention mechanism – whether via contracts, auction, resource adequacy initiative or some other mechanism – will also hinder future development as no investor would knowingly deploy capital in a market that does not enable a reasonable opportunity to recover costs let alone earn a return. Details of this framework must be developed alongside MRP-proposed changes to ensure continued system reliability and resource adequacy. Therefore, IESO should work with stakeholder to establish this important market design clarity as soon as reasonably practicable.

Section 2 Current and Future State

Detailed Comment Section 2.2 (Market Power Mitigation in the Future Market)

- Today, a resource that is constrained off for Energy to supply OR is indifferent as to whether it is being scheduled for energy or OR as they will be kept whole to their energy operating profit. Could the IESO confirm that the same will be true in the renewed market and that resources should continue to be indifferent as to whether they are scheduled for energy or being held back for OR. If this is not the case, this could have impacts for resources who hold CES-style contracts and will require further discussions so that new risks are not created for contract holders.

Section 3 Functional Design

Detailed Comment Section 3.6 (Ex-ante Mitigation for Price Impact)

- The IESO is proposing that energy offers below \$25/MWh and OR offers below \$5/MWh will be excluded from economic withholding tests. In order for APPrO to determine whether this is an appropriate value, could the IESO please provide the rationale for setting the benchmark at \$25/MWh and \$5/MWh?
- What would be the criteria or trigger around revisiting the \$25/MWh and \$5/MWh to ensure it is still the appropriate benchmark?
- In a jurisdictional scan provided in FTI's June 29, 2017 Module G MMP Appendix, it showed that in MISO and NY ISO, if located outside a constrained area, they use 300% or \$100/MWh as the threshold for Energy. Could the IESO provide their rationale for proposing 200% for Ontario's BCA zone and what differences it sees between Ontario and NYISO and MISO to necessitate a more restrictive threshold?

Detailed Comment Section 3.8 (Mitigation of Make-Whole Payment Impact)

- The impact thresholds for make-whole payments for the NCA/DCAs is the same as it is for a BCA. Could the IESO provide rationale why the impact threshold is not more permissive in the BCA as is the case in the impact thresholds for economic withholding?
- In the make-whole payment impact (for NCA, DCA and BCA) a conduct and impact test will be carried out when an NQS which was committed and has a positive congestion component greater than \$0/MWh on any binding constraint. Has the IESO conducted any analysis to-date to show how often a committed NQS could potentially have a congestion component greater than \$0/MWh? Analysis and rationale for the use of \$0/MWh would be helpful to determine if this is the appropriate benchmark to use or if some other value greater than \$0 should be considered.

Detailed Comment Section 3.13 (Reference Levels)

- IESO indicates a cost-based methodology will be used to establish an approximation of each resource's short-run marginal costs. The establishment of reference levels should not be an approximation but it should accurately reflect a resource's costs. Otherwise if the approximation creates a reference level that is below actual costs anytime that resource may be mitigated it would be forced to operate at a loss. As APPrO has stated, getting the reference levels correct and accurate is crucial, otherwise more permissive thresholds will be required.
- Please explain why long-term costs are not included in the energy reference levels, and where does the IESO see these costs then being recovered? If Ontario continues to be fundamentally an energy only market and there are no external mechanisms/constructs to support "missing money", will all of this be revisited? APPrO understands the relaunch of the Resource Adequacy SE is expected later this year and APPrO believes there is linkage between energy market reforms and other programs to secure resource adequacy. As such, a review on a holistic basis will be required.

- In section 3.13.1.2 the for the OR Reference Level there is no equation provided but it simply states “opportunity costs”. Could the IESO please provide clarity as to how this will apply to different types of resources.
- APPrO members look forward to discussions with the IESO to start determining resource-specific reference levels.