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**Reasons of the *IESO Board* in respect of  
an *amendment to the market rules***

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Terms and acronyms used herein that are italicized have the meanings ascribed thereto in Chapter 11 of the *market rules*.

The following sets out the *IESO Board's* reasons for its decision on the proposed *amendment* to the *market rules* identified in Part 1 below (the "**Amendment**").

**PART 1 – MARKET RULE INFORMATION**

Identification No.:	MR- 00439-R00-R05
Title:	Transitional Capacity Auction

The *IESO Board* convened to consider the Amendment on the date and location set out in Part 2 below.

**PART 2 – BOARD MEETING INFORMATION**

Date:	August 28, 2019
Location:	120 Adelaide Street, West, Toronto

Prior to considering the Amendment, the Chair of the *IESO Board* enquired whether any director of the *IESO Board* had a conflict of interest to declare, the result of which is set out in Part 3 below.

**PART 3 – CONFLICTS OF INTEREST**

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| <p><input checked="" type="checkbox"/> No conflict was declared.</p> <p><input type="checkbox"/> Any director declaring a conflict of interest abstained from voting on the adoption of the Amendment.</p> |
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The *IESO Board* was presented with the materials in respect of the Amendment identified in Part 4 below (the “**Materials**”), all of which is *published* on the *IESO’s* [website](#) subject to such redactions as *IESO* staff determined reasonably necessary.

#### **PART 4 – MATERIALS**

- Agenda Item Summary
- Memorandum from the Technical Panel Chair
- IESO Summary Presentation
- IESO legal memo (privileged and confidential, not made publically available)
- Market Rule Amendment Proposals
  - R00 – Changes to Market Rule Definitions
  - R01 – Participant Authorization and Facility Registration
  - R02 – Auction Parameters and Publication
  - R03 – Energy Market Participation
  - R04 – Non-Performance Charges and Settlements
  - R05 – Removal of DR Pilots and CBDR Sections
- Draft Resolution
- Technical Panel member vote and rationale
- Stakeholder Feedback
  - Advanced Energy Management Alliance (AEMA)
  - Association of Major Power Consumers of Ontario (AMPCO)
  - Enel X
  - AEMA / AMPCO joint submission
- Consumer Impact Assessment (this assessment is required to support the Ontario Energy Board market rule amendment review process)
- Technical Panel and Stakeholder Comments (this assessment is required to support the Ontario Energy Board market rule amendment review process)
- IESO email to Rodan and AMPCO, dated August 16, 2019
- Rodan email to IESO (not made publicly available at request of Rodan)

Having considered the Amendment and the Materials, the *IESO Board* decided as identified in Part 5 for the reasons set out in Part 6.

#### **PART 5 – DECISION**

- The *IESO Board* decided in favour of the adoption of the Amendment.
- The *IESO Board* referred the Amendment back to the *technical panel* for further consideration and vote.
- The *IESO Board* decided against the adoption of the Amendment.

## PART 6 – REASONS

The *IESO Board* reviewed the Materials including the *technical panel* vote of 11 in favour and 1 opposed to recommend MR-00439-R00-R005 for approval by the *IESO Board*. The *IESO Board* discussed the Amendment at the August 28, 2019 *IESO Board* meeting, including the positions of stakeholders and the issues raised during the market rule amendment process. The *IESO Board* decided to adopt the Amendment, with an effective date of October 15, 2019, based on the following reasons:

1. The Amendment is the first phase in evolving the demand response auction into a more competitive capacity acquisition mechanism that includes new resource types. This allows for increased competition in the acquisition of capacity for the benefit of Ontario customers.
2. The Amendment enables the IESO to begin implementing the Transitional Capacity Auction in a phased approach in order to be ready to address forecasted capacity needs in Ontario. The implementation of the first phase of the Transitional Capacity Auction will enable important experience and learnings with respect to integrating and administering new resource types in the Ontario capacity market sufficiently in advance of more significant capacity needs, currently projected to arise in the 2023 timeframe. A phased approach will reduce risk, while ensuring continued evolution of the market through the phased inclusion of new resources. This is a more prudent approach than attempting to implement a new capacity auction mechanism just prior to the time when there is a more significant capacity need.
3. The Amendment enables non-committed dispatchable generators to participate in the Transitional Capacity Auction alongside dispatchable loads and hourly demand response resources. The Amendment provides an important opportunity for existing non-committed generators coming off contract to compete to provide reliability services, in this case capacity. In the absence of this opportunity to compete, these generators may choose to wind down their operations to the potential detriment of Ontario reliability and the interests of Ontario customers.

The *IESO Board* noted and reviewed the view of some stakeholders that the Amendment would unjustly discriminate against demand response resources because those resources would not receive an additional payment if they are economically activated (comparable to the energy payment to generators). The *IESO Board* considered the AEMA/AMPCO joint brief dated July 19, 2019 and concluded that the current Amendment does not unjustly discriminate against demand response resources.

The position of the stakeholders relies heavily on a Final Rule issued in March 2011 by the United

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States Federal Energy Regulatory Commission (FERC) which requires payments to demand response resources when they are dispatched subject to the condition that they meet a “net benefit requirement”. This FERC Rule is a relevant consideration, but the Board was advised it is not binding in Ontario. More importantly, it is not clear that the FERC analysis and conclusion is applicable to Ontario given the differences in the Ontario electricity market as compared to United States electricity markets. For example, it is not clear whether an additional payment to demand response resources in Ontario would meet the FERC net benefit requirement.

As a result, further analysis is required, and the IESO has already committed to completing that analysis and engaging stakeholders in this process. AEMA/AMPCO believe it is appropriate to delay implementation of the auction in order to complete the analysis. The analysis is expected to take some time which would delay the planned Transitional Capacity Auction. The *IESO Board* considered a delay and concluded that a delay is not warranted and, further, would undermine the benefits noted above and be detrimental to the market overall.

In addition, access to energy payments is not expected to be a material consideration for the December 2019 auction, because economic activations are expected only under very limited circumstances, which is also consistent with the level of historical economic activations. As noted above, the IESO has committed to studying the impact of introducing energy payments for demand response resources in Ontario and if such payments are warranted they could be introduced in a subsequent phase of the capacity auction. The *IESO Board* concluded that proceeding with the Amendment and the auction would not cause substantial harm to demand response resources.

The *IESO Board* also concluded that delaying the auction in order to complete the analysis would be detrimental to the market overall. Specifically, delaying the auction would delay the introduction of increased competition, create an unnecessary delay in the phased approach to developing the auction in advance of substantial future capacity needs, and risk failing to retain access to existing generation assets coming off contract. A delay would therefore result in decreased competition in Ontario and give rise to potential negative impacts on reliability.

The *IESO Board* concluded that it is prudent to implement the Amendment as proposed. The *IESO Board* noted that the *technical panel* also considered these issues and concluded (by a vote of 11 in favour and 1 opposed) that the Amendment should be recommended for approval. Much of the

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rationale of those supporting the Amendment is reflected in the *IESO Board's* reasons for approving the Amendment.

Lastly, relating to a *technical panel* process matter, the *IESO Board* noted that the AEMA/AMPCO joint brief was provided to the *technical panel* shortly before its August 13, 2019 meeting and the issue was raised as to whether the *technical panel* had sufficient time to consider the brief. The *technical panel* was provided an opportunity to delay the vote if members required more time to consider the joint brief, but the *technical panel* decided not to delay the matter. The *IESO Board* reviewed all the *technical panel* Materials and concluded that the *technical panel* exercised its discretion on an informed and reasonable basis.