

SEPTEMBER 21, 2022

2023 Capacity Auction Enhancements

Overview

- Response to stakeholder feedback from the August engagement meeting
- Update to the 2023 Capacity Auction Enhancements engagement timelines
- Update on the following topics:
 - Hourly Demand Response (HDR) standby price trigger review
 - HDR qualification discussion
 - HDR contributor outage proposal
 - Forward Capacity Auction (FCA) update
 - Request for stakeholder feedback on the audit process
- Next steps for 2023 Capacity Auction enhancements and the FCA

Recap: Enhancement Objectives

- The capacity qualification enhancement introduces a transparent process to derive an Unforced Capacity (UCAP) value for all resources while accounting for unique resource participation frameworks and provides both the IESO and auction participants with the confidence that the capacity contribution from each resource is being accounted for using fair and transparent methodologies.
- Modifications to the performance assessment framework will incent improved performance and reliability from cleared resources during hours of system need, while ensuring alignment and fairness from qualification through to assessment.
- Both enhancements contribute to ratepayer value by strengthening the IESO's ability to secure reliable capacity at the lowest cost.



Stakeholder Feedback

Overview

- Stakeholder feedback and IESO responses in this presentation pertains only to the topics being discussed in the September General and Technical Sessions, including the draft engagement plan, HDR qualification, HDR standby trigger price review, HDR contributor outages, and auction timing
- IESO appreciates the feedback received on the other engagement topics and is in the process of reviewing and formulating a plan for addressing that feedback
- Response to all feedback will be posted ahead of the October engagement meeting

Draft Engagement Plan

Stakeholder Feedback

IESO Response

Generally supportive of the proposed approach to engaging on the 2023 Capacity Auction Enhancements.

IESO has revised the engagement timelines to provide additional time to ensure each topic has adequate time for engagement discussions and will assess opportunities to further adjust the engagement timelines, if necessary.

Concerns regarding the magnitude of changes being proposed in relatively compressed timelines.

Recommend the engagement review the Zonal and Capacity Import constraints section of the Market Rules to provide clarity and transparency for participants, and that no section of the Market Rules should be considered out of scope for this engagement.

IESO will assess opportunities to provide further clarity and transparency regarding Zonal and Capacity Import constraints in the Market Rules and IESO training materials. IESO clarifies that while they will be released in batches, the full set of draft Market Rules applicable to the Capacity Auction enhancements will be posted for stakeholder review prior to approval and implementation.

HDR Standby Trigger Review

Stakeholder Feedback

IESO Response

Recommend the IESO provide insight into forecast prices and system needs to determine what the Standby Trigger should be to ensure HDR resources are available when required.

Historical data was used to inform a Standby Trigger value to ensure HDR resources are available at times when other peaking resources are expected to be dispatched. IESO does not forecast prices.

Proposed that in the future the IESO update IT tools to a naturally dynamic trigger that reflects the changing needs of the grid.

The IESO appreciates this recommendation and will consider it as part of the annual review of the Standby Trigger currently being proposed.

Qualification: HDR Resources (Standby Charge)

Stakeholder Feedback	IESO Response
<p>Consider alternatives to the Standby Availability Charge that would provide IESO with the information required to accurately calculate an availability de-rate (Ex. ERCOT model)</p>	<p>IESO will be discussing alternative proposals to the Standby Availability Charge at the September 22 Technical Session.</p>
<p>Suggest including loss factors into the HDR qualification methodology</p>	<p>IESO is open to discussion on this topic, and requests that stakeholders bring forward a formal proposal to the October Technical Session. The proposal should address how line losses are accounted for UCAP methodologies in other jurisdictions, how line losses would be accounted for in the HDR qualification methodology, and how an appropriate value for line losses may be calculated, given that capacity is modelled at the zonal level.</p>

HDR Performance Thresholds

Stakeholder Feedback	IESO Response
<p>Raised concerns with the contributor outage proposal only applying to outages on the day of the activation, due to impact of outages prior to an activation on assessed performance.</p>	<p>IESO will be further discussing this concern at the September 22 Technical Session and encourages stakeholders to bring concrete examples of this impact to that session for IESO consideration.</p>
<p>Continue to take issue with the HDR baseline methodology, stating that it is not necessarily an appropriate measure of capacity, but rather energy delivered to the system.</p>	<p>IESO defines capacity as a resource's maximum ability to provide energy or reduce load when required, and further defines the Capacity Auction capacity product as an energy market must-offer/bid requirement, obligating resources to make energy/curtailment available for real-time balancing during specified hours. The IESO's current baseline methodology and application of that methodology is aligned with these definitions.</p>

Auction Timing

Stakeholder Feedback

Suggest there be a longer transition period to enable participants to implement new procedures internal and external to their organization if IESO revises pre-auction timelines and forward periods in the future to be earlier in the year.

IESO Response

IESO appreciates the insight and feedback submitted on this topic and in response, will not be moving the timing of the 2023 auctions. If auction timing is changed in the future, sufficient time will be provided for market participants to adjust operations and business planning accordingly.



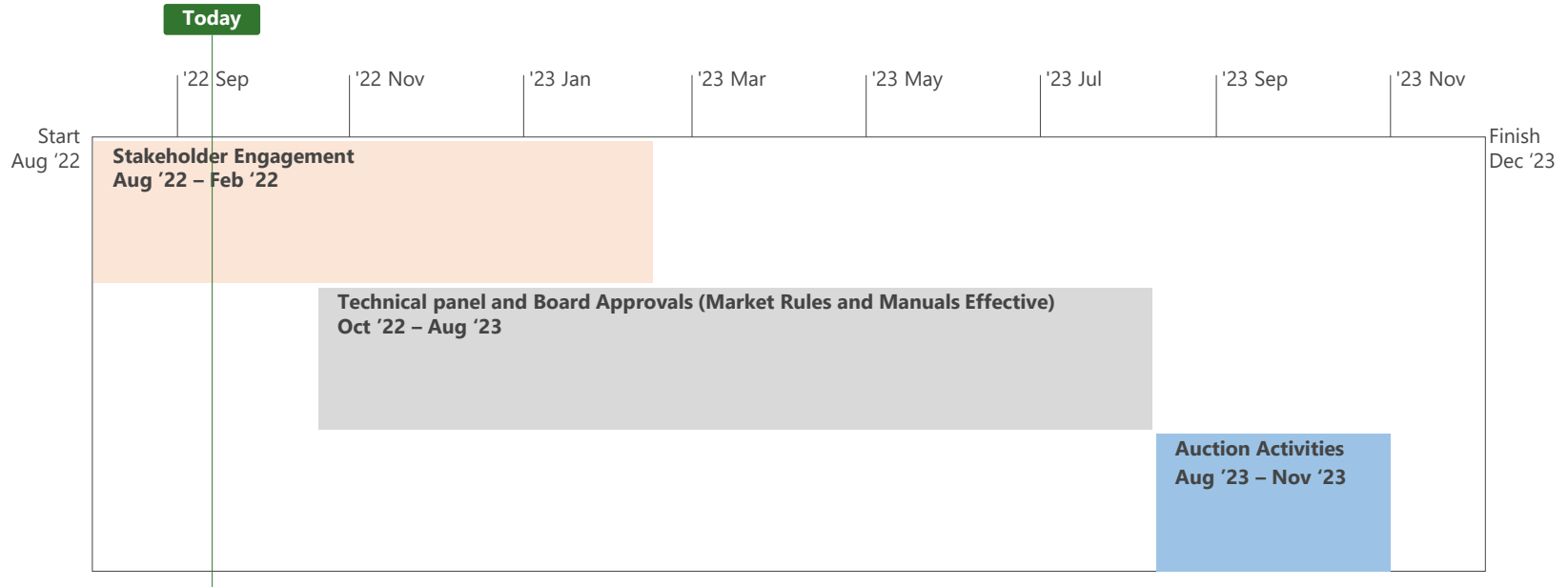
Engagement Timelines



Updated Timelines

The following timelines have been updated to reflect the timing of the auctions.

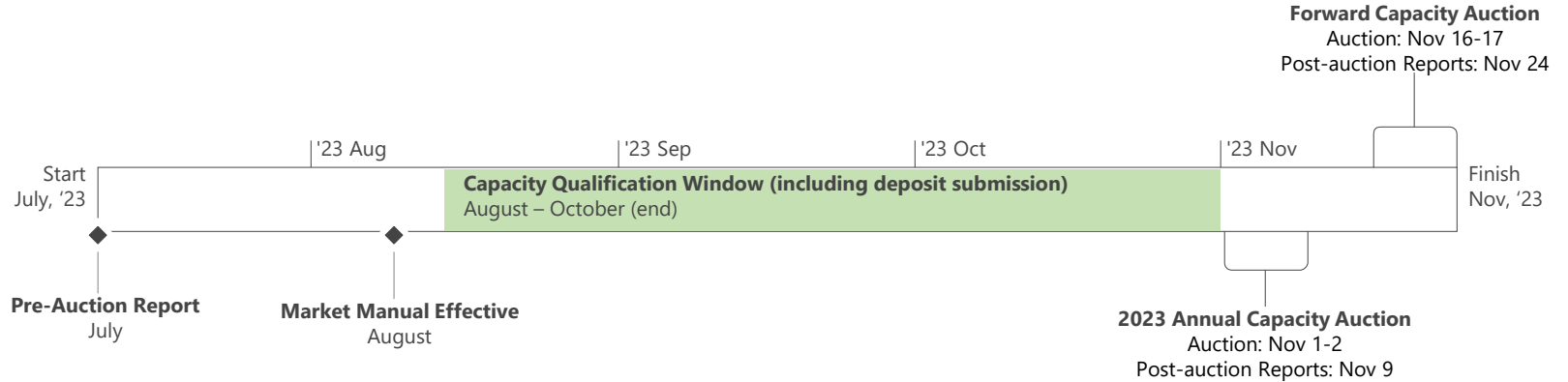
Implementation Timelines – High-Level



Implementation Timelines - Details

	Activity	Tentative Dates
Engagements	General Session - 2	September 21, 2022
	Technical Session - 2	September 22, 2022
	General Session - 3	October 2022
	Technical Session - 3	October 2022
	General Session - 4	November 2022
	Technical Session - 4	November 2022
	General Session - 5	December 2022
	Technical Session – 5	December 2022
	General Session – 6	January 2023
	General Session - 7	February 2023
Technical Panel & Board Approvals	TP - Status Update	October 11, 2022
	TP - Education	January 2023
	TP - Vote to Post	March 2023
	TP Vote to Recommend	May 2023
	Board Approval (MR)	June 2023
	OEB Review Period	June 2023
	Market Rule Effective	July 2023
	Market Manual Effective	August 2023

2023 Capacity Auction Timelines – High Level



Engagement Topics Status

Topic #	Topic	Status	Draft Market Rule/Manual Review
1	Non-HDR Qualification	Complete	October 24-26 Engagement Session
2	Testing Framework	Complete	October 24-26 Engagement Session
3	Charges & True-Ups	Complete	October 24-26 Engagement Session
4	Standby Price Trigger Review	In Progress – update at September 21 General Session, Design Memo posted	Late October/Early November posting on Pending Changes website.
5	HDR Qualification (Standby Charge)	In Progress – update at September 22 Technical Session	November 22-24/December 14-16 Engagement Session*

*Depending on progress of engagement discussions

Engagement Topics Status

Topic #	Topic	Status	Draft Market Rule/Manual Review
6	HDR Performance Thresholds (Contributor Outages)	In Progress – update at September 22 Technical Session	November 22-24/December 14-16 Engagement Session*
7	Demand Curve Review	In Progress – update at October 25 Technical Session	December 14-16 Engagement Session
8	Forward Capacity Auction	In Progress – update at September 21 General Session	January 2023 Engagement Session
9	Audit	Stakeholder feedback requested by Oct. 7 on potential enhancements	TBD*

*Depending on progress of engagement discussions



Engagement Topics

4.0 – HDR Standby Trigger Review

Overview: Higher pre-dispatch shadow prices are triggering the \$100/MWh HDR standby notification more frequently, which is leading to inefficient market outcomes thus driving the need for a review of the price trigger threshold. As stated at the August 25 General Session, scope of the review is intended to address a specific identified issue ahead of the 2022 Capacity Auction.

A proposed updated value for the HDR standby price threshold and rationale for the updated value will be presented and discussed today. Pending stakeholder feedback, this price will be in effect starting with the Summer 2023 obligation period.

Further Details: [Design Memo 4.0 – HDR Standby Price Trigger](#)

4.0 – HDR Standby Trigger Review

Review Approach: An analysis was conducted and consisted of a two-part assessment to determine how best to align HDR standby notifications with grid reliability/system needs.

Proposed Design: Based on the analysis, the IESO proposes to change the standby notice price to \$200/MWh for the 2022 Capacity Auction.

Next Steps: The change will be implemented for the 2022 Capacity Auction.

Market Manual Impacts: Market Manuals 4.3 and 9.3 will be amended as part of the update. The changes will be posted on the Pending Changes website in late October/early November.

5.0 – Qualification: HDR Resources (Standby Charge)

Overview: A capacity qualification process is required for all resources participating in the capacity auction, including an availability de-rate. Outstanding issues with the proposed Standby Availability Charge for HDR qualification were discussed at the August 26 Technical Session. There was general agreement that a penalty/charge in lieu of an availability de-rate can be developed with stakeholder input.

September 22 Technical Session: Discuss revised Standby Availability Charge and alternative proposals that meets the objectives outlined in August 26 Discussion Brief 1.0.

Further Details: [Discussion Brief 1.1 – HDR Qualification and Standby Availability Charge](#)

6.0 – Performance Assessment: HDR Thresholds

Overview: Issues with impact of large contributor outages on HDR performance was discussed at the August 26 Technical Session.

This issue relates to the CA enhancement to adjust the capacity test threshold for HDR resources from 80% of bid capacity to 90% of cleared ICAP.

September 22 Technical Session: The proposal to remove the contributor on forced outage from the HDR baseline calculation will be discussed.

Further Details: [Discussion Brief 2.1 – HDR Performance Thresholds](#)

8.0 – Forward Capacity Auction (FCA) Design

Design Topic	Design Decision	Status
Auction Timing	Q4 (Nov/Dec) 2023	Complete – to be reflected in October Design memo
Commitment Length	3-year commitment	Complete – to be reflected in October Design memo
Target Capacity		In Progress – update in October
Dual Participation		In Progress – update in October
Performance Assessment		In Progress – update in October
Resource Eligibility		In Progress – update in October
FCA Demand Curve		Not Started
Pre- and Post-Auction Mechanics		Not Started

8.0 – FCA Design

Overview: IESO is proposing a Forward Capacity Auction (FCA) to secure capacity further in advance of when capacity needs are forecast to appear. At the August 25 general session, the IESO requested stakeholders submit feedback on:

1. Commitment length (3-year vs. one-year commitments)
2. Auction timing (for both ACA and FCA)

The IESO received feedback from stakeholders which was reflected in the decision not to move auction timing to the summer months. Previous feedback indicated a preference for multi-year commitments which led to the decision to utilize a 3-year FCA commitment.

Further information on FCA design will be presented in the October general engagement session.

9.0 – Audit

Overview: Stakeholders have suggestions regarding opportunities to enhance the Measurement Data Audit process.

The IESO invites stakeholder feedback regarding these opportunities to be submitted by October 7 using the feedback form on the engagement webpage.



Next Steps

Next Steps

September 22 Technical Session will focus on:

1. Review of a revised Standby Availability Charge and alternative proposals submitted by stakeholders to be used in lieu of an availability de-rate in HDR qualification
2. Revised performance thresholds and a proposal to address the impact of forced contributor outages in performance assessment

Please review the Discussion Briefs posted on the [engagement webpage](#) prior to the Technical Session.

Next Steps, continued

October 24-26 Engagement Sessions :

- Draft market rules/manuals for Non-HDR Qualification, Testing Framework, Charges & True-Ups
- Demand curve review
- Audit discussion
- Stakeholder proposal(s) on including loss factors in HDR capacity qualification

Request for Stakeholder Feedback

- Please submit feedback on today's engagement topics by **Friday, October 7** to engagement@ieso.ca using the feedback form on the engagement webpage.