

OCTOBER 25, 2022

Capacity Auction - Demand Curve Review

Background

- The existing demand curve was established in 2015 to support the competitive procurement of demand response capacity
- No demand curve parameters have been updated since the initial design, including for basic economic factors such as inflation
- Since 2015, the auction mechanism has evolved to:
 - Expand eligibility to a broader set of resource types, including generation, storage and capacity imports;
 - Qualify resources based on unforced capacity (UCAP) basis; and
 - Operate in coordination with other procurement mechanisms as part of the broader Resource Adequacy Framework

Objectives

- Given Ontario's emerging capacity needs in the near-term, the objective of the review is to ensure the auction remains a cost-effective, reliable, and robust procurement mechanism within the Resource Adequacy Framework
- Demand curve adjustments will aim to ensure that the auction continues to:
 - Procure sufficient capacity to meet incremental capacity needs;
 - Provide a stable and appropriate investment signal to market participants; and
 - Drive competition and ratepayer value
- Implementation for the summer 2024 and winter 2024/25 obligations periods (2023 Capacity Auction) will allow sufficient time for the market to respond to price signals in advance of when critical capacity needs are expected to appear

Stakeholder Feedback

Stakeholder Feedback

IESO Response

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- The demand curve should be a more flexible design so the curve can adjust more frequently to match market conditions
- Demand curve parameter updates consider market conditions, as well as changing supply conditions, and the design and objectives of the auction, among other factors
 - The target capacity is adjusted each obligation period based on identified incremental capacity needs, meaning the demand curve already shifts up and down and the slope of the curve changes seasonally and annually
 - IESO will also consider updating the Reference Price annually for inflation
 - IESO is interested in further feedback regarding how additional flexibility could be incorporated into the demand curve design in the future
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Stakeholder Feedback (cont'd)

Stakeholder Feedback

IESO Response

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| <ul style="list-style-type: none">• Suggest the IESO include an assessment of the appropriateness of the reference technology in the demand curve review | <ul style="list-style-type: none">• IESO's Pathway's to Decarbonization report is due to be submitted to the Ministry of Energy in Q4 2022, and is expected to inform government policy on the role of natural gas resources in Ontario's future electricity system• This policy clarity, along with execution of the medium- and long-term procurements, will inform future demand curve reviews, including assessments of the reference technology |
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Scope

- Updates to the demand curve for the 2023 Capacity Auction will focus on adjustments to the Reference Price and Maximum Auction Clearing Price (MACP)
- Engagement on future auction enhancements will consider a more fulsome review that includes potential updates to the reference technology
- This approach will ensure substantive changes to the demand curve (e.g., choice of reference technology) are considered comprehensively, including with sufficient stakeholder input, to ensure alignment across procurement mechanisms

Next Steps

October

- IESO and Brattle to present updated Reference Price and MACP analysis
- Stakeholders to provide feedback on updated analysis

November

- IESO to present recommended adjustments to the curve based on Brattle analysis, feedback, and internal review and seek feedback on recommendations

December

- Final design memo outlining price updates for the 2023 Capacity Auction and recommendations for future demand curve reviews