



FEBRUARY 22, 2023

2023 Capacity Auction Enhancements

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Today's Discussion

- Continue discussion on the design of the Performance Adjustment Factor
- Begin engagement on administrative updates for the 2023 Capacity Auction. A status update on the two-stream engagement and implementation timeline presented in the January 2023, engagement session

Agenda

- Recap of 2023 Enhancement Objectives
- Engagement Update
- Performance Adjustment Factor (PAF) Design
- Stakeholder Feedback on the (PAF)
- Adjustments to PAF Related to Stakeholder Feedback
- Administrative Updates
- Next Steps

Recap: 2023 Enhancement Objectives

2023 enhancements contribute to ratepayer value by strengthening the IESO's ability to competitively secure reliable capacity

Capacity Qualification: Adopt transparent process to derive an Unforced Capacity (UCAP) value for all resources while accounting for unique resource participation frameworks

Performance Assessment Modifications: Modify performance assessment framework to incent improved performance from acquired capacity resources

Demand Curve Review: Update demand curve parameters such that the auction remains a cost-effective, reliable, and robust procurement mechanism within the Resource Adequacy Framework



Engagement Status Update

Engagement Status Update

Reminder: There are two streams of work for the Capacity Auction Enhancements

Stream 1 - Draft market rule and manual amendments for completed designs will be posted for stakeholder feedback in March 2023

- While engagement on the design of enhancements for stream 1 is complete, the IESO is reviewing and considering the recently submitted stakeholder feedback. The IESO will respond to that feedback ahead of the March stakeholder engagement session
- **Stream 2 – The IESO is continuing to engage on the design of the PAF and administrative updates – this is the focus of this month’s session.**



Performance Adjustment Factor (PAF)

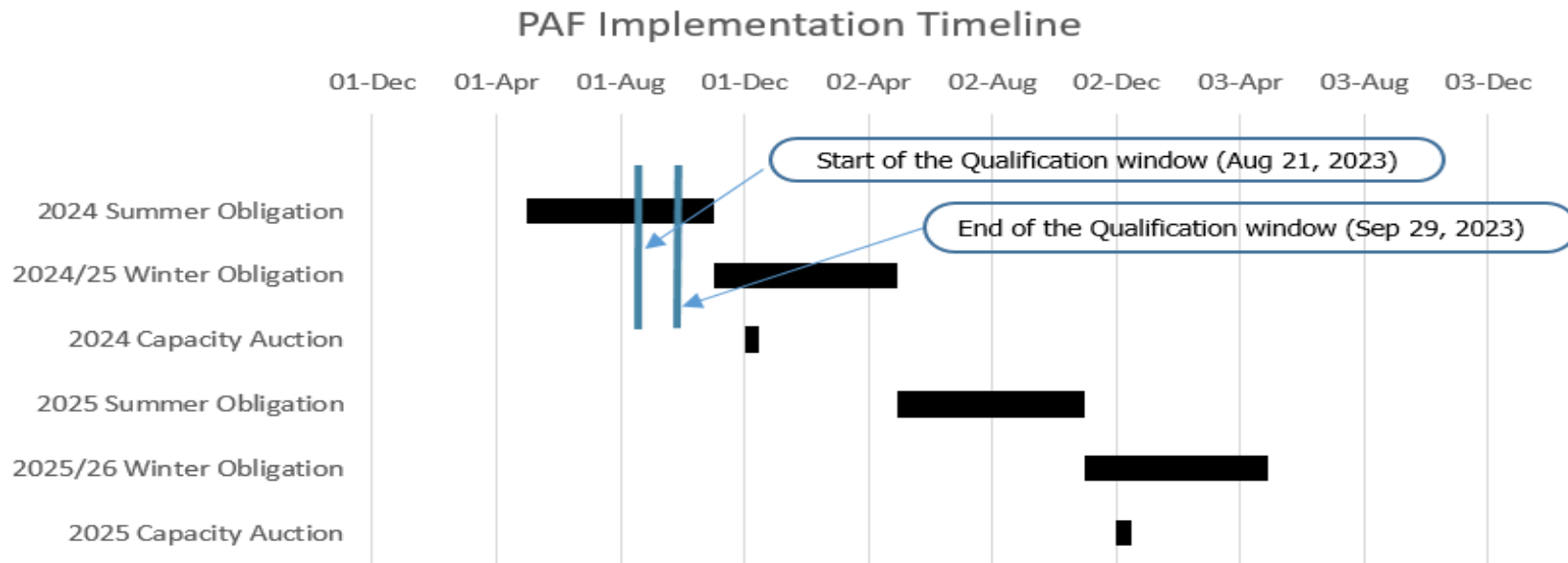
Objective of the Performance Adjustment Factor

- The performance adjustment factor is intended to encourage reliable performance year over year in order to aid the IESO in acquiring capacity via the Capacity Auction that it can count on
- It is applicable to individual resources and is based on performance during seasonal capacity tests

PAF Design

- The IESO has proposed that the PAF be applied to all resources beginning with the 2025 Capacity Auction using capacity test activation data from December 2023 auction's summer obligation period (May - October 2024) and winter obligation period (November 2024 - April 2025).
- The two-year time lag is due to the capacity qualification process occurring part way through the previous auction's winter obligation period so the capacity test, data submissions and calculation of PAF results will not have been completed yet.

Proposed PAF Design – Implementation



This figure demonstrates the overlap between obligation period and the qualification process

Stakeholder Feedback on the PAF (1 of 2)

Stakeholder Concern: *The Hourly Demand Response qualification methodology, which includes an in-period adjustment and PAF, puts a strong emphasis on performance during the capacity test and not on resource's ability to deliver on any other day in the obligation period.*

IESO Response: To reduce the concentration of risk around the capacity test the IESO has proposed the following provisions in the revised testing framework

- 10 business day advance notice leading up to the capacity test
- 5 business day testing period to conduct the capacity test
- The IESO will also issue the 10-business day notice during the first two months of the obligation period

Stakeholder Feedback on the PAF (2 of 2)

Stakeholder Concern: *"The current PAF does not apply until two years down the line at which point an aggregators portfolio would look very different then it did at the time of the Capacity Test two years prior."*

IESO Response: The IESO understands and appreciates this concern. In response, the IESO is proposing a revised implementation methodology that will result in the application of any given resource's PAF without the two-year lag.

Details of the updates to the design are discussed in the next few slides

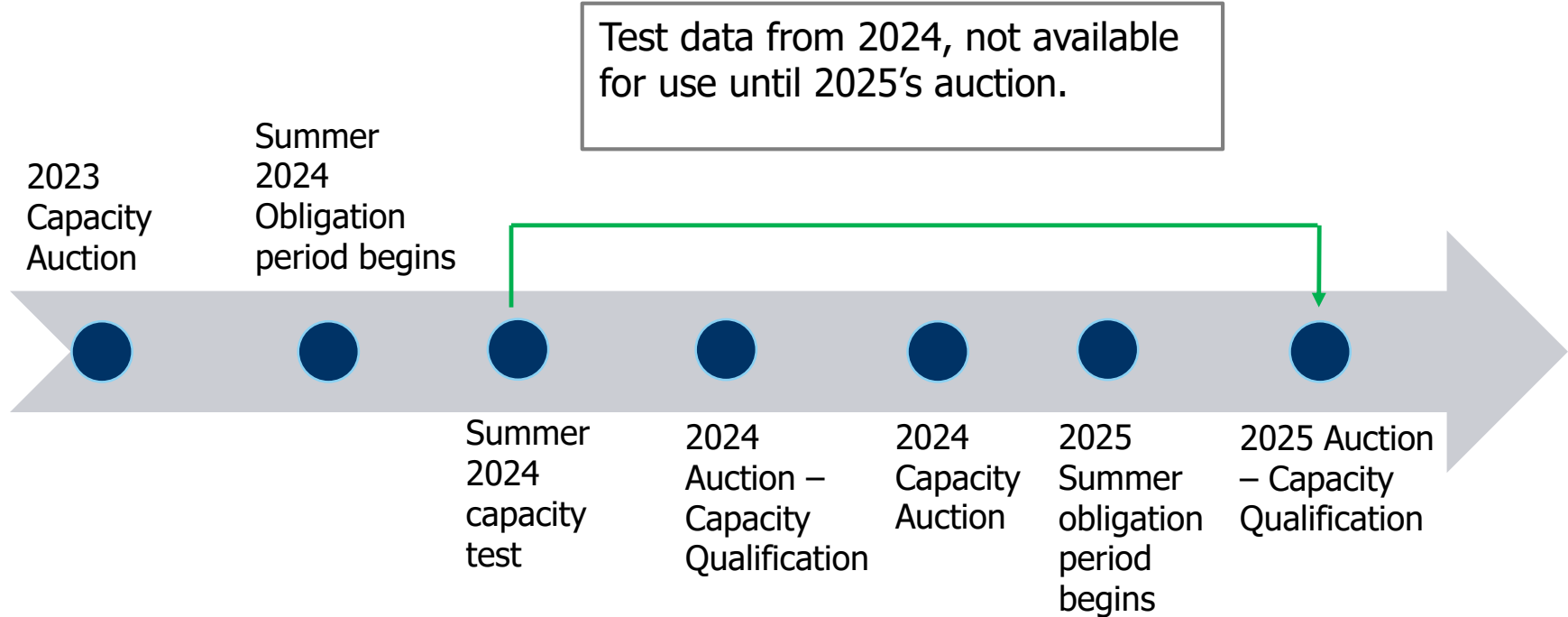


Updates to the PAF Design Based on Stakeholder Feedback

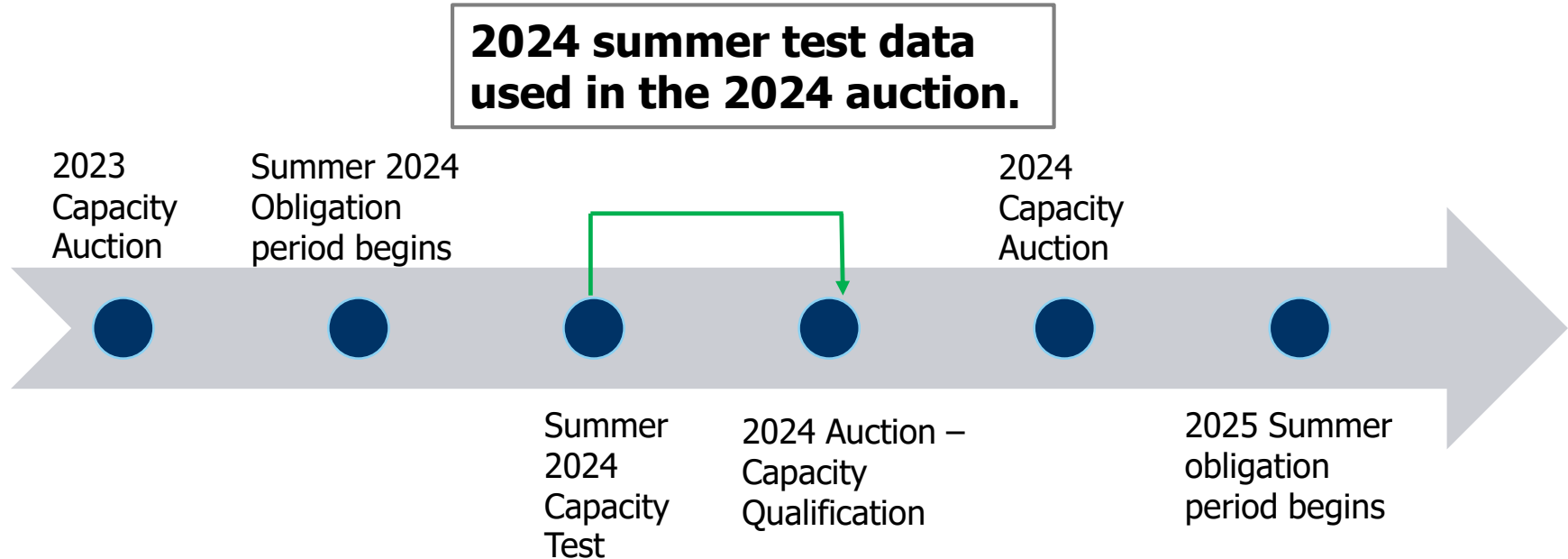
PAF Design – Updates

- To help address the concerns raised, the IESO considered amending the implementation timelines for the PAF.
- Unfortunately timelines for the winter obligation periods are not able to be revised.
- However, the IESO does believe that it can use capacity test activation data (up to July 31), from the previous summer obligation period to determine a PAF for the next summer obligation period.

Timeline – Current Summer PAF Design

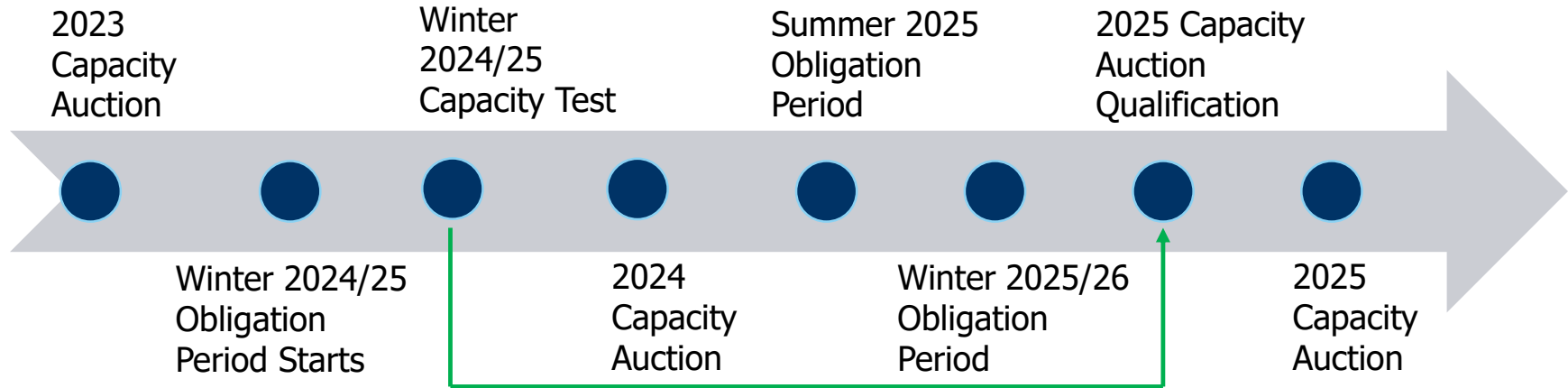


Timeline - PAF Design - Updated



Timeline – Current Winter PAF Design (no change)

Capacity Qualification for 2025 Auction will use test performance data from the Winter 2024/25 obligation period (2023 Auction)



For winter qualification, no changes to the implementation timelines under the revised mechanism

Updated PAF Design - Impact

- This update to the proposed PAF design and implementation timelines will help to address the concern raised by hourly demand response participants that the PAF is applied in a subsequent auction to a resource that could include a significantly different contributor pool than the one that the PAF is based on
- With these updates, if the resource performs better in a subsequent capacity test, the results from that test will be used in the next capacity auction's qualification process resulting in an improved PAF or no PAF for the resource in a timely manner



Administrative Updates

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The administrative updates to the 2023 capacity auction will consist of:

1. Drafting style updates to the capacity auction sections of Ch. 9 of the market rules and Market Manual 5.5. This is to update to the prevailing style used in the other sections of these documents, to ensure all sections are written in a uniform way.
2. Possible alignment updates to Market Manual 12 because of the Ch. 9 updates, as well as general clean-up revisions.
3. Updates to some participation mechanics for generator-backed import resources as a result of lessons learned from the 2022 capacity auction.

In today's engagement session, we will focus on administrative update #1 (drafting style updates). Updates pertaining to generator-backed import resources will be outlined in the March stakeholder engagement session.

Ch. 9 Drafting Update

- Settlements equations, and the definitions of their variables, are typically populated in Ch.9 of the market rules for all settlement activities except the capacity auction, which are populated in Market Manual 5.5 and Charge Types and Equations.
- As part of a larger effort to update the market rules, in part to prepare for the revisions coming with Market Renewal, this administrative update will bring the sections of Ch. 9 pertaining to the capacity auction in line with the rest of the Chapter, with all settlements equations and variables defined in the market rules themselves.

Ch. 9 Drafting Update (2)

- Moving the equations into the market rules does not change the obligation on the participant, as the rules and manuals together form the obligations placed upon auction participants. This update is administrative and simply aligns the capacity auction sections with the rest of Ch. 9.
- All equations will also continue to be in the Charge Types and Equations document.



Next Steps

Summary

- The IESO is proposing to update the PAF implementation mechanism to address the two-year time lag for the summer obligation period
- The IESO is asking for feedback from stakeholders regarding whether this update addresses the concern raised that the PAF would be applied to a significantly different aggregator portfolio in later years
- The IESO is open to any feedback on the administrative updates as well

Request for Feedback

- The IESO will consider all input on this engagement and a feedback form is posted on the [Capacity Auction Enhancements](#) engagement webpage
- Feedback or comments are requested by **March 8, 2023**.
- Please contact engagement@ieso.ca if you have questions following this session

Engagement Next Steps

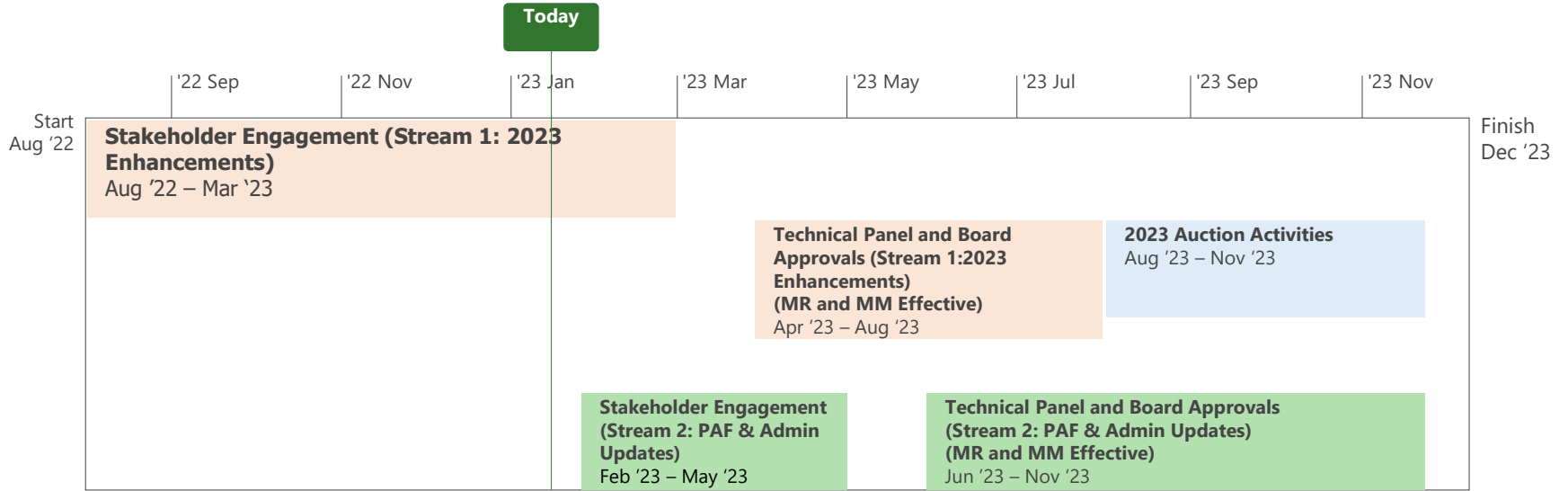
March 2023 Engagement Session:

- Present the final PAF design that considers stakeholder feedback and close off the discussion on the PAF
- Present draft amendments to Market Rules and Market Manuals reflecting the completed 2023 enhancements (stream 1)
- Initiate engagement on future auction enhancements

Market Rule/Manual Release Schedule

Stream	Design Enhancement	Draft Document Review	Status
1	<ul style="list-style-type: none"> Capacity Qualification (non-HDR) (design memo 1.1) Testing Framework (design memo 2.1) Charges and True-Ups (design memo 3.0) Capacity Qualification (HDR) (design memo 5.1) HDR Contributor Outages (design memo 6.2) Performance Thresholds (design memo 6.1) Demand Curve Elements (design memo 7.1) 	March 2023	In Progress
2	<ul style="list-style-type: none"> Administrative Updates Qualification: Performance Adjustment Factor 	April/May 2023	In Progress

Revised High Level Timeline – Stream 1 and 2





Appendix

Engagement Topics Status

Move it to the appendix

Topic #	Topic	Status	Draft Market Rule/Manual Review (if applicable)
1	Non-HDR Qualification	Complete	March 2023 Engagement Session
2	Testing Framework	Complete	March 2023 Engagement Session
3	Charges & True-Ups	Complete	March 2023 Engagement Session
4	Standby Price Trigger Review	Complete	Late November effective
5	HDR Qualification	Complete	March 2023 Engagement Session
6	HDR Performance Thresholds & Contributor Outages	Complete	March 2023 Engagement Session

Engagement Topics Status (2)

Topic #	Topic	Status	Draft Market Rule/Manual Review (if applicable)
7	Demand Curve Review	Complete	March 2023 Engagement Session
8	Forward Capacity Auction	Further Design Suspended. May be revisited in future	
9	Audit	IESO to engage on this in 2023 as part of the future enhancements	
10	Qualification: Performance Adjustment Factor (PAF)	In Progress	May 2023 Engagement Session