

Stakeholder Feedback and IESO Response

Capacity Auction Enhancements – July 21, 2022 & August 25, 2022

Following the July 21, 2022 and August 25, 2022 Capacity Auction Enhancement engagement webinars, the Independent Electricity System Operator (IESO) invited stakeholders to provide feedback on the materials presented.

The IESO received feedback from the following stakeholders:

July 21, 2022:

- Advanced Energy Management Alliance
- Ontario Power Generation
- Rodan Energy Solutions
- Voltus Energy Canada Ltd.

August 25, 2022:

- Advanced Energy Management Alliance
- Energy Storage Canada
- Voltus Energy Canada Ltd.

This feedback has been posted on the Capacity Auction Enhancements engagement webpage.

Note on Feedback Summary and IESO Response

The IESO appreciates the feedback received from stakeholders. The table below responds to the feedback received and is organized by each topic. This document is provided for information purposes only. It does not constitute, nor should it be construed to constitute, legal advice or a guarantee, offer, representation or warranty on behalf of the IESO.

July 21, 2022 Feedback

Forward Capacity Auction Commitment Length

Feedback	IESO Response
<p>Stakeholders suggested that if the Forward Capacity Auction (FCA) is administered as three, single-year commitments, there is a risk that participants may not clear all three auctions.</p> <p>Stakeholders raised questions regarding what type of resource would benefit from single-year commitments and how this approach to the FCA would align with the Annual Capacity Auction (ACA) if the ACA intended to be used as a balancing mechanism.</p>	<p>At the August 25 engagement session, IESO presented the pros and cons of the FCA proceeding with one, three-year commitment, or three, single-year commitments, and requested further stakeholder feedback on the options.</p> <p>At the September 21 engagement session, IESO indicated the FCA design, if implemented, would reflect a three-year commitment.</p>

Capacity Auction Timing

Feedback	IESO Response
<p>Stakeholders recommended a delay between administering the FCA and the ACA to provide participants with sufficient time to prepare ACA offers.</p> <p>Stakeholders noted that the longer forward periods associated with administering the auction(s) in the summer months may be beneficial to some participants.</p>	<p>At the August 25 engagement session, IESO provided further clarity on the proposed timing of the FCA and the 2023 ACA. IESO requested stakeholders elaborate on the specific risks associated with administering the auction(s) earlier in the year.</p> <p>At the September 21 engagement session, IESO indicated FCA and ACA will not be conducted in the summer months. The decision was a direct result of stakeholder feedback received following the August 25 engagement session.</p>

2023 Capacity Auction Engagement Priorities

Feedback	IESO Response
<p>Stakeholders support plans to continue refining the ACA performance assessment framework and further engaging on the process to ensure qualified capacity better reflects the actual capability of each resource.</p> <p>Stakeholders suggested the IESO consider discussion on topics such as outage management for demand side resources, impact of line losses, audit process, measurement and verification, and the overall HDR participation model.</p>	<p>At the August 25 engagement session IESO laid out the plan to address Capacity Auction enhancements. Initial discussions on HDR qualification and the HDR Standby Availability Charge were held on August 26.</p> <p>Engagement on a number of these topics, including outage management, measurement and verification, line losses, and the audit process is already underway within the 2023 Capacity Auction Enhancements engagement. A review of the HDR participation model would require a longer-term engagement that addresses topics beyond the scope of the Capacity Auction enhancements.</p>

August 25, 2022 Feedback

2023 Capacity Auction Engagement Plan

Feedback	IESO Response
<p>Stakeholders are generally supportive of the 2023 Capacity Auction Enhancements engagement plan.</p> <p>Stakeholders believe it will be challenging to address the stated scope of enhancements within the relatively compressed timelines, and suggest delaying some topics to allow for deeper analysis and evaluation of implications of those proposals.</p> <p>Stakeholders recommend the engagement plan include a review of Zonal and Capacity Import constraints (Section 2.6 and Section 2.7 of Market Manual 12) to provide additional clarity and transparency to participants.</p> <p>Stakeholders request that no section of the Market Rules be considered out of scope.</p>	<p>IESO has updated the engagement plan timelines to allow for sufficient time to engage on the proposed topics. IESO will assess additional opportunities to further adjust the engagement timelines.</p> <p>IESO will assess opportunities to provide further clarity and transparency regarding Zonal and Capacity Import constraint IESO training materials.</p> <p>IESO clarifies that no section of the Market Rules will be out of scope. While they will be released in batches, the full set of draft Market Rules applicable to the 2023 Capacity Auction enhancements will be posted for stakeholder review prior to approval and implementation.</p>

Engagement Topic 1.0 - Qualification: Non-HDR Resources

Feedback	IESO Response
<p>Concerns remain regarding the 5% Equivalent Forced Outage Rate (EFORd) value for energy storage resources. Stakeholders suggest establishing a plan for revisiting this value when more historical data is available.</p>	<p>There is limited data available on historical performance of storage resources given the relatively small number of facilities currently operating in Ontario. As such, a 5% EFORd will be used for all dispatchable storage resources in the 2023 Auction until more storage resources enter the Ontario market. IESO will revisit the 5% proxy value on a regular basis to see if sufficient data exists to determine a more specific EFORd. The 5% EFORd for dispatchable storage is consistent with metrics used by other system operators and what is currently used for IESO planning purposes.</p>

Engagement Topic 2.0 - Performance Assessment: Testing Framework

Feedback	IESO Response
<p>Stakeholders are supportive of self-scheduled Capacity Auction capacity tests. Stakeholders request clarification on what energy bid/offer prices will ensure a schedule/test activation is achieved.</p> <p>Stakeholders suggest that including test costs in Capacity Auction offers will place HDR resources at a disadvantaged compared to auction resource types that receive energy payments and requested IESO to consider extending the out-of-market test payments to Capacity Tests, in addition to Dispatch Tests.</p> <p>Stakeholders requested clarification that hours of the capacity test to be excluded from the baseline of HDR resources.</p>	<p>Clarification on market participant requirements to comply with the new testing framework will be outlined in the relevant Market Manuals and provided for stakeholder review prior to implementation.</p> <p>Stakeholders have broadly indicated support for the new capacity testing framework that allows them a greater degree of control and flexibility to schedule their own test within the testing week. All Capacity Auction resource types may incur costs as result of a test activation, that are not recovered through market revenues or other recovery mechanisms. For example, a quick-start gas resource that bids below its marginal energy cost in order to ensure dispatch to satisfy testing requirements. This means HDR resources will not be significantly disadvantaged compared to other Capacity Auction resources when including test costs in Capacity Auction offers, particularly since</p>

Feedback	IESO Response
	<p>the ability to self-schedule a test significantly reduces the cost risk associated with a test activation. HDR resources that are activated out-of-market, for example to address a system emergency operating state, will still be eligible for out-of-market payments.</p> <p>As the IESO has stated in previous feedback documents, any days in which an activation occurs, including activations that occur as part of the capacity test, will be excluded from the baseline calculation. Please refer to the definition of “Suitable Business Days” as part of the the baseline calculation description in Market Manual 5.5.</p>

Engagement Topic 3.0 - Performance Assessment: Charges/True-ups

Feedback	IESO Response
<p>Stakeholders suggest the IESO implement penalties and charges in such a way that they do not have compounding punitive effects.</p> <p>Stakeholders requested a definition of a resource’s registered capability.</p>	<p>IESO will consider demonstrating how charges and penalties apply under different performance scenarios to provide further clarity on enhancement designs and how future participation may be affected. The changes being introduced ensure that the cumulative penalty a market participant can be subject to is the total availability payments over a commitment period.</p> <p>The IESO thanks participants for their comment regarding the definition of a virtual HDR’s registered capability. IESO will review this request and respond as part of the implementation phase of the 2023 auction enhancements.</p>

Engagement Topic 4.0 - HDR Standby Trigger Review

Feedback	IESO Response
<p>Stakeholders are supportive of the proposal to review the standby trigger for HDR resources.</p> <p>Stakeholders recommend the IESO provide insight into the forecast of prices and system needs when establishing the Standby Trigger price.</p> <p>Stakeholders proposed that in the future, the IESO implement a dynamic trigger to reflect the changing needs of the grid.</p>	<p>The proposed revised standby trigger uses historic data to restore the frequency of standby notices to a level more consistent with when other peaking resources are expected to be used.</p> <p>Given the time constraints, the IESO relied on existing data and models to update the price trigger. If IESO were to incorporate further stakeholder feedback and refinements to the analysis, the standby trigger would have to remain at \$100 for the 2023/2024 commitment period. IESO appreciates the recommendation regarding a dynamic price trigger and is open to feedback on the analysis approach used to arrive at the \$200/MWh standby trigger price. This feedback will be considered as part of the annual review of the Standby Trigger being proposed for future years.</p>

Engagement Topic 5.0 - Qualification: HDR Resources (Standby Charge)

Feedback	IESO Response
<p>Stakeholders suggest the IESO consider alternative proposals to the Standby Availability Charge that would provide the IESO with the information required to accurately calculate an appropriate availability de-rate for HDR, and provided an example of how this approach works in ERCOT.</p> <p>Stakeholders continue to recommend that IESO include loss factors in the HDR capacity qualification methodology.</p>	<p>At the September 22 Technical Session, IESO further engaged with stakeholders on the Standby Availability Charge and alternative proposals for HDR qualification.</p> <p>IESO is open to discussion on line losses, and requests that stakeholders bring forward a formal proposal on this topic to the October Technical Session. The proposal should address how line losses are accounted for in 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 capacity is modelled at the zonal level.</p>

Engagement Topic 6.0 - HDR Performance Thresholds

Feedback	IESO Response
<p>Stakeholders support the discussion on HDR performance thresholds and the proposal to manage forced HDR contributor outages. Stakeholders continue to take issue with the baseline, stating that it is not necessarily an appropriate measure of capacity, but rather energy delivered to the system.</p> <p>Stakeholders have concern with the contributor outage proposal only applying to outages on the day of the activation. Stakeholders assert that outages prior to the activation day can also impact assessed performance.</p>	<p>The IESO 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 this definition.</p> <p>At the September 22 Technical Session, IESO further discussed the definition of a forced contributor outage with stakeholders and encouraged stakeholders to bring forward concrete examples of how a contributor outage prior to an activation day impacts assessed performance.</p>

Engagement Topic 7.0 - Demand Curve Review

Feedback	IESO Response
<p>Stakeholders suggest delaying the demand curve review due to compressed timelines. If the review moves forward, stakeholders suggest including the appropriateness of the reference technology in the scope of the review.</p> <p>Stakeholders suggest the demand curve should be designed to provide stability to participants year-to-year, and be a flexible design so the curve can adjust more frequently to match market conditions.</p> <p>Stakeholders raised concerns regarding the linkages between the FCA and the ACA demand curve.</p>	<p>IESO will continue work on the demand curve review based on the revised engagement timelines. A review of the reference technology is not in scope of this review, given that clean electricity policy is evolving in Ontario, but will be considered in future reviews.</p> <p>IESO appreciates stakeholder feedback on the overarching design of the demand curve and will take these recommendations into consideration as part of the review.</p>

Engagement Topic 8.0 - Forward Capacity Auction (FCA) Design

Feedback	IESO Response
<p>Stakeholders suggest that if IESO plans to revise the pre-auction timelines and forward periods in the future, sufficient time is provided for participants to</p>	<p>Stakeholder feedback on the FCA has been reflected in the decision to not change the timing of the auction (including the annual</p>

Feedback	IESO Response
<p>implement new procedures internal and external to their organization.</p> <p>Stakeholders remain unclear on the rationale for an FCA and have concerns about the FCA design since the objective has shifted to securing more capacity sooner in advance of when needs are expected.</p> <p>Stakeholders indicated concern with the potential for the FCA to erode the ACA, and the complexity associated with designing effective linkages between the two auctions.</p>	<p>auction) and the decision to proceed with a three-year commitment.</p> <p>IESO continues to consider the additional feedback on the FCA and will provide an update on the FCA design at the October engagement session.</p>