

IESO York Region Non-Wires Alternatives (NWA) Demonstration Project and Innovation and Sector Evolution White Papers – Feedback Form

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<u>Date Submitted:</u> 2020/01/10	<u>Feedback Provided By:</u>
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Following the December 12, 2019 public webinar outlining the concept design of the IESO York Region NWA Demonstration project and the white papers on NWA Markets and Transmission-Distribution Interoperability, the IESO is seeking feedback from participants on the draft white papers and specifically on the design of the demonstration project.

Feedback received will be considered in order to shape the design for the demonstration project, including processes, timelines, resource eligibility, and service agreement of the demonstration. The IESO will work to consider and incorporate comments as appropriate and post responses on the engagement webpage.

The referenced presentation and white papers can be found under the December 12, 2019 entry on the Innovation Sector Evolution White Paper Series Engagement [webpage](#).

Please provide feedback by January 10, 2020 to engagement@ieso.ca. Please use subject: *Feedback: IESO York Region NWA Demonstration Project*. To promote transparency, feedback submitted will be posted on the Innovation and Sector White Paper engagement [webpage](#) unless otherwise requested by the sender.

Thank you for your time.

Table 1 – Topic: Concept Design of York Region NWA Demonstration Project

Question	Feedback
How can participation in the demonstration auction be maximized?	<p>Participation in the demonstration auction can be maximized by</p> <ol style="list-style-type: none"> 1. Providing clear and transparent rules for the auction, including release of any draft contract documents well in advance of the RFP/auction; 2. Removing any unnecessary barriers to entry, including auction fees which may be onerous for small developers/aggregators; and, 3. Providing for a reasonable contract length which allows a project financier an opportunity to recover their investment in a DER and economically evaluates the DER against wire alternative assets over the same time horizon.
What are challenges/opportunities to the adopted T-D model?	<p>One of the significant challenges to the adopted T-D model is the ability to send appropriate signals to the market place in the absence of a fully functional capacity market and the absence of locationally-based marginal prices at a distribution level.</p>
Are demonstration timelines reasonable?	<p>The timelines, particularly for the first auction in Q4 2020, appear aggressive, recognizing that this will be the first local capacity auction being held. We note that the service agreement and capacity auction process documents are only available one quarter in advance (Q3 2020). Delaying the auction to Q2 2021 would appear prudent, allowing all participants the opportunity to develop their participation and bid strategies.</p>

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<p>Are the proposed eligibility requirements reasonable?</p>	<p>While the proposed eligibility requirements appear generally reasonable, we urge the IESO to finalize the rules used for Hourly Demand Response and to resolve key issues that will impact future markets ensuring the rules are neutral between all technology types (energy storage, CHP, gen. sets, DR).</p> <p>In addition, SPS believes that there is an ownership role for the LDC, particularly in “owning” dispatch rights of a third-party owned asset. Without sufficient incentive and ability for an LDC to earn a reasonable rate of return, there will be a continued unconscious bias by LDC’s to favour a wires alternative over NWA options.</p>
<p>Are there other issues that are important to the success of the demonstration?</p>	<p>We encourage the IESO to work with LDC’s and the OEB to develop appropriate regulatory incentive mechanisms for LDC’s to participate and encourage NWA’s. This could be explored in the demonstration.</p>

Table 2 – Topic: NWA Markets White Paper

Question	Feedback
<p>Are there other concepts from the NWA Markets White Paper that are worthwhile to explore in the demonstration?</p>	<p>Please see comments below.</p>

Table 3 – Topic: Transmission- Distribution Interoperability White Paper

Question	Feedback
<p>Are there other concepts from the Transmission-Distribution Interoperability White Paper that are worthwhile to explore in the demonstration?</p>	<p>SPS supports a well coordinated TSO and DSO, including how a hybrid model could function during an interim period.</p> <p>Important concepts to test include development of clear roles and responsibilities for both the DSO & TSO.</p> <p>Detailed design of market rules should also evaluate how to allow assets to participate in both the wholesale and distribution markets.</p>

General Comments/Feedback:

SPS wishes to comment further on the NWA Markets White Paper:

The paper provides an interesting approach, arguing that a pricing approach for NWA could be constructed at a DSO level with DSO-level capacity markets (representing the long run cost of supply), energy market (LBMP) and ancillary services. Unfortunately, while theoretically it *may* be possible, the proposed market/pricing approach does not take into account the following issues:

- (1) Ontario has chosen to move away from a long-term capacity market that is envisioned by the paper and is evolving its DRA to a form of capacity auction, where many of the rules are still unclear, including notably the issue of allowing DR resources ability to earn energy payments. In addition, the form of capacity auction, including the lack of long term guaranteed contracts does not allow capacity payments to approach the long-term cost of supply. On page 15, the paper states “The economic theory of capacity payments is that they will provide additional payments that in the long-run, on average, compensate resources at the long-run marginal cost of supply. For resource owners, capacity payments provide the **price stability** and **revenue certainty** to incentivize them to make capacity available (emphasis added). A bi-annual “DR” auction will not provide any meaningful contract life to allow non-wire projects to satisfy project financiers on revenue certainty to allow a reasonable return on investment. In comparison, a “wires” project, if approved into ratebase, is recovered over a much longer time frame (20-40 years dependent on the asset class). This sets up for inequity in treatment and evaluation of a wires and non-wires investment.
- (2) The white paper suggests that the concept of capacity zones and zonal capacity prices could be extended to support NWA at the distribution level. However, zonal capacity prices may undervalue specific constrained assets at the distribution level which could be evaluated as a NWA if there is insufficient locational granularity of pricing. Instead, SPS believes that the appropriate valuation for NWA should be based on sound asset management and economic benefit/cost principles. In this the non-wires alternative would be directly compared to the wires option in determining the preferred asset strategy. In New York, for example, the local investor owner utilities collaborated to develop a Benefit-Cost (BCA) Handbook which provides a transparent and consistent methodology to calculate the costs and benefits of potential projects and investments, including the applicable use of specific cost-effectiveness tests

(see example in this [page](#)). These utilities are required to run BCA on all capital investments over a material threshold to evaluate the economic feasibility of a non-wires alternative (DR, energy storage and energy efficiency). Such an approach should be considered for applicability to Ontario’s distribution networks.

- a. We are unsure why ancillary services were taken out of scope for consideration: SPS believes that ancillary services provide an important component of value stacking for DER’s and should be brought back into scope.