

Stakeholder Feedback Form: MRP Energy Detailed Design

Design Document: Market Settlement

Date Submitted: 2020/07/31

Feedback Due: July 24, 2020

Feedback provided by:

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The IESO is posting a series of detailed design documents which together comprise the detailed design of the MRP energy stream.

This design document is posted to the following engagement webpage: <http://ieso.ca/en/Market-Renewal/Energy-Stream-Designs/Detailed-Design>.

Stakeholder feedback for this design document is due on July 24, 2020* to engagement@ieso.ca.

Please let us know if you have any questions.

IESO Engagement

*The original due date for feedback was July 31, 2020 and IESO officials have agreed to accept submissions up to and including this date.

General feedback on the Detailed Design Document

Ontario's local distribution companies (LDCs) are the face of the industry to the overwhelming majority of the end users in the province: they serve over 5,000,000 customers and deliver approximately 125 TWh – or about 90% - of all the electricity used in the province.

These are the comments of the Electricity Distributors Association (EDA) on the Independent Electricity System Operator's (IESO) Detailed Design for Energy – Market Renewal Program (MRP). Our focus is on matters directly relevant to local distribution companies (LDCs), that are assigned non-dispatchable load (NDL) status. We offer the perspective of both LDCs and LDC-connected customers. Our objectives are to provide constructive comments that will support the transition from Detailed Design to Implementation and to identify improvements to the Detailed Design. These comments build on our comments made during the High-Level Design phase.

Generally, we agree with the objectives of the MRP, being to improve economic efficiency, transparency and competitiveness of Ontario's wholesale electricity market that, in combination, are expected to lower electricity costs for consumers. In addition to identifying the required amendments to IESO Market Rules and Market Manuals, we advocate that the IESO, the Ontario Energy Board (OEB), and the Ministry of Energy, Northern Development and Mines (MENDM) proactively engage with LDCs and their customers to identify, scope, evaluate and decide on:

- enabling legislative amendments; and
- amendments to regulatory policy (e.g., the mechanics of the Regulated Price Plan (RPP), the price that LDC embedded generators are to be paid) and regulatory instruments (e.g., OEB codes including the Distribution System Code (DSC), Retail Settlement Code (RSC), Standard Supply Service Code (SSSC))

that will, in concert, support LDCs as they move forward with implementation of MRP. We also urge the IESO, the OEB and MENDM to appropriately sequence these changes. Given the timeframe of proposed implementation and complexity of the changes, there are natural advantages of convening stakeholder consultations at the earliest opportunity.

The general themes of this submission are:

- The requirement of additional clarity or detail (for example, clarifying common use terms, or describing applicability to customers) in certain sections of the document
- Whether the Detailed Design is sufficiently complete (e.g., references to the Capacity Auction, interim design of the Energy Storage Design Project) with sufficient instructional detail to proceed with implementation of Market Rule / Market Manual amendments, as well as corresponding legislative amendments and changes to regulatory policy
- To comment on the accuracy and implementability of new processes and settlements
- To ensure that processes and timelines are understood (e.g., by mapping changes to current processes)

To support our submission, we have commented on specific sections of the Detailed Design.

As a general comment for the Market Settlement Detailed Design, we suggest that the IESO use consistent terminology. Throughout the Detailed Design the IESO uses several terms without standard definition, including:

- DAM Zonal Locational Marginal Price of Energy
- Real-Time Zonal Marginal Price of Energy
- DAM hourly zonal price
- DAM zonal price
- Dayahead market prices
- Ontario zonal prices
- Hourly zonal LMP for the Ontario zone.

For clarity throughout the Detailed Design and to help avoid confusion during the implementation phase, we recommend that the IESO carefully apply standardized defined terms, such as **DAM Ontario Zonal Price** and **RT Ontario Zonal Price** for province-wide uniform pricing, and **DAM LMP** and **RT LMP** for locational pricing at specific delivery points.

The balance of our comments are organized according to the format of the IESO's Feedback Form.

Section 2 Summary of Current and Future State

Detailed Comment

- Section 2.1 – Market Settlement in Today's Market

We consider that this section provides a suitable overview of the settlement processes and practices currently in use by the IESO and IESO market participants. We recommend that the IESO clarify that the descriptions provided in this section do not apply to either LDC customers or embedded generators that are not IESO market participants.

- Section 2.2 – Market Settlement in Future Market

We consider that this section provides a suitable overview of the proposed market settlement. We recommend that the IESO clarify that the changes articulated in this section apply to IESO market participants only. This section is the first example of the need to amend legislation, and regulatory instruments so that MRP's changes can be appropriately flowed through to LDC consumers and embedded generators that are not IESO market participants. This section should add that amendments will be required to the OEB codes (e.g., DSC, RSC, and SSSC, etc.) to correspond with changes to wholesale market pricing.

Since the Demand Response Auction has been replaced with the Capacity Auction, we propose that Figure 2-1 and Figure 2-2 be updated to reference the Capacity Auction.

Section 3 Functional Design

Detailed Comment

- Section 3.3.1 – DAM Market Overview

We consider that this section provides a suitable overview of the proposed two- settlement system for energy and operating reserve.

Table 3-1 clarifies that the only settlement amount applicable to NDLS would be determined as part of the second settlement (i.e., Hourly Physical Transaction Settlement Amount – Non-Dispatchable Loads, or HPTSA_NDL). To be clear, the first settlement amount does not apply to NDLS.

We recommend that the IESO clarify that the final settlement statements that are provided 20-business days after the real-time trading day will provide the HPTSA_NDL to NDLS and that the IESO describe any changes in timelines and/or reporting. This will support LDCs in understanding the impacts of any changes to timelines and to reporting requirements.

We recommend that the IESO also clarify how the IESO will report on the Load Forecast Deviation Charge (LFDC). We recommend that the IESO publish both the DAM Ontario Zonal Price and the LFDC as separate quantities, recognizing that the sum of these quantities will be the price applied to consumption by NDLS.

We note that LDCs will require guidance from the OEB on the methodology for distributing Congestion Rent and Loss Residuals (CRLR) to LDC customers.

- Section 3.4 – Impact on Current Settlement Amount Calculations

We consider that this section provides a suitable description of the new settlement amounts that will be introduced upon implementation of the MRP. We have the following concerns with the information presented in Appendix D that provides several tables of charge types:

1. We urge the IESO to provide more instructional information to market participants with respect to changes to charge types used in IESO market settlement processes. LDCs require this information from the IESO as soon as possible in order to initiate a review of internal settlement systems and processes and prepare for the transition to the new Market. Table D-5 provides a list of 46 Charge Types from the IESO administered market that will be impacted by MRP but does not provide specificity with respect to required changes. For example, which charge types are amended or retired, which new charge types are required, and a mapping of changes between old charge types and new charge types.
2. We recommend that more detail be provided to assess the implications of any amendments that may be required to Table D-7. This table provides a list of 32 charge types (“Existing Ancillary Service Charges”) that will need to be reviewed prior to and during the implementation phase so that the settlement process and its calculations appropriately incorporate any amendments.
3. We urge the IESO to provide more information on the processes and timelines required to implement the legislative or regulatory amendments flowing from the legislation related charge types that will need to be reviewed for potential amendments resulting from MRP. The

list provided at Table D-9 includes 42 charge types that the IESO anticipates must be consulted on with the applicable regulatory bodies. We strongly encourage the IESO to augment this planned consultation to include LDCs and their customers as they will be impacted by these changes.

4. Appendix D should include an additional table that lists the OEB codes that will need to be reviewed and amended in advance of the implementation of MRP. LDC customers will benefit from knowing how the OEB's RPP will be affected. Also, LDC customers not subject to RPP (i.e., Class A and Class B consumers) will likewise benefit from knowing which wholesale market price produced by the IESO will replace the Hourly Ontario Energy Price (HOEP) on their electricity bills.

This section implies that there will be a "transition period" when existing settlement amounts will appear on settlement statements alongside new settlement amounts. We propose that transitions should be planned and coordinated among all market participants so that old processes are phased-out in an orderly way.

- Section 3.5.6 Collection of Real-Time Market Data

We recommend that the IESO clarify that the "interval" time resolution referred to in Table 3-27 is a 5-minute interval.

- 3.6.1 DA and RT Energy and OR Settlement: First Settlement

We consider that this section provides suitable information with respect to the proposed first settlement. We note that the IESO proposes that market participants will continue to see Net Energy Market Settlement Credit on their settlement statements for a period of time. For the reasons set out previously, we propose that transitions such as the continued provision of certain information within IESO settlements, should be planned and coordinated among all market participants so that old processes are phased out in an orderly way.

We repeat this comment with respect to the second settlement and notes that the IESO does not mention the need for a transition period in Section 3.6.2.

We recommend that Table 3-40 be updated to include reference to the "electricity storage market participant". In general, the Detailed Design should be adjusted to include reference to the "electricity storage participant" per the Energy Storage Design Project, as applicable, since the interim design for storage is planned to be in effect prior to MRP.

We also recommend that Table 3-40 clarify that LDC embedded generation facilities that are not registered with the IESO are not included in the "non-dispatchable generation facility" category.

We propose that the IESO confirm that M1, as used in Formula Variant 2, applies to Price Responsive Loads (PRLs) without physical Hourly Demand Response (HDR) obligations, and that Formula Variant 2 does not use overlapping sets to set M1 and M2.

- 3.6.2 DA and RT Energy and OR Settlement: Second Settlement

We consider that Table 3-47 should be revised in the same manner as Table 3-40 for consistency:

- outline the eligibility for electricity storage market participants

- clarify that “non-dispatchable generation” does not include embedded generators that are not IESO market participants
- confirm that M1 and M2 are not overlapping sets for Variant 2.

As well, Table 3-47 and Table 3-1, which describes the HPTSA_NDL as a second settlement, should be made consistent with each other, for example by clarifying that the HPTSA_NDL is part of the second settlement.

• 4.6.3 Non-Dispatchable Load Settlement

We consider this section to be the single most economically impactful section to LDCs. It details the structure of the adjusted price that will be applied to electricity consumed by NDLS as the sum of the DAM Ontario Zonal Price and the LFDC.

We find that the Detailed Design consideration of the adjusted price requires additional review and clarification. Consider the computation of the RT Purchase Costs/Benefit and the DAM Volumetric Factor Cost/Benefit that are required to determine the LFDC. Both factors require the DAM Quantity Scheduled for Withdrawal (DAM_QSW) for all non-PRL HDR resources at the specific delivery point. This value is not available for all non-PRL HDRs; non-PRL HDRs are permitted to aggregate contributors within an IESO zone, and the DAM_QSW does not specify the delivery point.

To resolve this calculation the IESO will need to:

- ensure that the DAM_QSW for all non-PRL HDRs is specific to the delivery point for all contributors, which will require a Market Rule amendment related to the participation of non-PRL HDRs; or
- make an assumption about the applicable delivery point(s) for all contributors of non-PRL HDRs, which risks affecting price formation accuracy.

• 3.7.14 Congestion Rent and Loss Residuals (CRLR)

We seek additional detail on the publishing and reporting of CRLRs (i.e., timing, communication). As noted elsewhere, the OEB will need to engage itself in this issue in a timely manner so that LDCs compensate their customers appropriately.

• 3.10 Regulatory Processes

This section should add reference to OEB Codes that will need to be amended alongside MRP and accompanying regulatory and legislative changes. We consider that appropriate time must be provided for the Code amendment process and the stakeholder engagement that is required under the OEB Act.

We recommend that both the IESO and the OEB collaborate to prepare a sound, balanced and disciplined stakeholder engagement plan to review and consult on all regulatory amendments and Code changes that would be required to implement MRP.

Section 4 Market Rule Requirements

Detailed Comments

In general, we find that the IESO has identified the areas of the IESO market rules that will require amendment to affect MRP, with the following exception:

Chapter 9, Section 6 (Existing – requires amendment)– Settlement Statements

We consider that this section requires more specificity with respect to the required changes. Consider, for example, section 6.5.2 where the IESO states that HOEP will be replaced with “day-ahead market prices”. As commented on in the Introductory Remarks, the IESO ought to use correct, specific and standardized terms to describe the prices referenced. This section should also reference the LFDC, because the price applied to NDLS consists of the sum of the DAM Ontario Zonal Price and the LFDC.

Section 5 Procedural Requirements

- 5.1 Market-Facing Procedural Impacts
 - IESO Charge Types and Equations:

We propose that the IESO plan the required consultation with the Canada Revenue Agency on the tax treatment for new or modified settlement charge types and also plan the follow on process for updating the Detailed Design documents, Market Manuals and Market Rules.

- Market Manual 5: Settlements, Part 5.5 - Physical Markets:

We propose that Market Manual 5 reference both the price factor adjustment (i.e., LFDC) and the DAM Ontario Zonal Price. We recommend that the IESO’s Market Manual include a new section on NDL settlement that is not subject to the two-settlement system.

- File Format Specifications – Statement Files and Data Files:

We consider that this section lacks specificity required by LDCs. As mentioned above and with reference to Appendix D, detailed information with respect to changes to charge types is required for LDCs to interpret how the reforms to the IESO market will impact existing LDC processes and settlements. We propose that the IESO provide worked examples and a schematic that maps changes from the current processes to new processes. We underscore the importance of including this level of detail in the Detailed Design phase, as opposed to later phases of MRP implementation, given that amendments to Market Rules and Market Manuals will be made based on instructions set out in the Detailed Design. Ambiguity in the Detailed Design increases the risk of increased complexity and uncertainty for LDCs during the implementation phase.

- Training Material – Guide to Settlement Claims and Data Submissions via Online IESO (4.5 RESOP – LDC & Embedded LDC; 4.8 HCI Program; 4.8 FIT program – LDC & Embedded LDC):

We consider that this section requires further detail and clarification. We assume that the IESO will continue to ensure full reimbursement of LDCs for the settlement of IESO contracts.

This section states that the HOEP will be replaced with the “Ontario zonal price”. As we have commented in the Introductory remarks, it is important to use clearly defined, standardized terms. We are unsure if the IESO is referring to the DAM Ontario Zonal Price or the RT Ontario Zonal Price in this section.

Currently, distribution-connected generators that are not IESO market participants are paid HOEP for electricity delivered to the distribution system. Whether these generators are paid the DAM Ontario Zonal Price or the RT Ontario Zonal Price has consequences for LDCs that are responsible for settling IESO contracts. For example, if HOEP is replaced by the RT Ontario Zonal Price in the applicable IESO Contracts, there will be additional complexity for settlement because a “true-up” payment between the LDC and the IESO will be required to reflect the difference between “DAM Ontario Zonal Price + LFDC” and the RT Ontario Zonal Price. Further, we note that the OEB determines the amount an LDC will pay to distribution-connected generator for injected electricity.

We propose that the IESO consult with LDCs, in parallel with their consultations with generators on amendments to IESO contracts, to ensure that LDCs have complete information for settlement purposes and when communicating with customers.

- Training Materials - Settlement Statements and Invoices:

We consider that this section lacks specificity and proposes that the IESO provide worked examples and a schematic that maps the changes from the current processes to future processes.

- 5.2 Internal Procedural Impacts

We propose that the IESO establish a specific consultation process to focus on required changes to regulation and legislation, including OEB codes, as part of its collaborative review with the OEB.

Section 6 Business Process and Information Flow Overview

Detailed Comment

We point out that Figure 6-1 should be updated to refer to the Capacity Auction, rather than the Demand Response Auction.

We point out that the IESO does not make reference to the LFDC in this section of the Detailed Design. This appears to be an omission.