

Resource Adequacy – Feedback Form

Meeting Date: September 28, 2020

<u>Date Submitted:</u> <i>2020/10/23</i>	<u>Feedback Provided By:</u> Organization: <u>TransAlta</u> Main Contact: <u>Chris Codd</u> Email:
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Following the September 28, 2020 Resource Adequacy webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following items discussed during the webinar. More information related to these feedback requests can be found in the presentation, which can be accessed from the [engagement web page](#).

Please submit feedback to engagement@ieso.ca by October 20, 2020. If you wish to provide confidential feedback, please submit as a separate document, marked “Confidential”. Otherwise, to promote transparency, feedback that is not marked “Confidential” will be posted on the engagement webpage.

Stakeholder Feedback Table

IESO Requests	Stakeholder Feedback
<u>Principles to Guide the Resource Adequacy Framework Conversation</u>	
<p>The IESO proposes to use the MRP guiding principles to guide the discussion with stakeholders on the development of a high-level Resource Adequacy framework. Are there other principles that should be considered throughout this discussion?</p>	<p>The Market Renewal Program principles were designed to apply narrowly to market design and ignore many critical aspects of the Resource Adequacy issue in Ontario. The MRP principles do not mention reliability. They also ignore the Ontario context, such as the preferential treatment afforded to rate-regulated resources in legislation. At a minimum, the MRP principles would need to be redrafted to remove references to markets to be relevant to the Resource Adequacy discussions.</p> <p>Resource Adequacy is a planning issue not a markets issue. It would be more appropriate to guide discussions using planning concepts rather than markets concepts. The first IPSP presented sustainability criteria which would be a better guide for the Resource Adequacy discussions (ref: EB-2007-0707 Ex. B-3-1, p. 21 and Ex. I-1-54).</p> <p>TransAlta proposes five principles for guiding discussions about the Resource Adequacy framework:</p> <ol style="list-style-type: none"> 1. Cost – how much does the framework reduce the cost of electricity in the short and long-term? 2. Reliability – will the framework meet the resource adequacy obligations? 3. Feasibility – does the framework provide the lead time needed to develop and invest in new and existing resources? (e.g., technical feasibility, commercial availability, technological maturity) 4. Flexibility – is the framework adaptable to a range of future policies and other uncertainties? 5. Transparency – do stakeholders have enough information to understand the Resource Adequacy processes and outcomes?
<u>Draft Resource Adequacy Framework</u>	
<p>Do these three capacity acquisition timeframes (commitment and forward periods) provide sufficient options for meeting the needs of your resource type?</p>	<p>No, the three resource acquisition timeframes do not address the near-term needs of resources with contracts expiring before 2028. The acquisition timeframes also do not support the development or ongoing operation of cogeneration facilities that need to match electricity and steam obligation periods.</p>

<p>Which option(s) are most suited to your resource type?</p>	<p>The proposed mid-term mechanism is most suited for renewable and gas-fired generators, except for cogeneration facilities.</p> <p>The long-term mechanism is best suited for cogeneration facilities that need to match electricity and steam obligation periods. Industrial customers need long-term certainty for their energy supply and cogeneration facilities cannot match customers' needs with system needs without a matching commitment. Cogeneration facilities should be permitted to participate in the long-term obligation period.</p>
<p>Based on timing when various mechanisms are going to be available, do you see timing gaps when a resource needs a mechanism before that mechanism is ready?</p>	<p>Yes, there is a timing gap. Resources with contracts expiring before 2028 will require a transitional mechanism because the Capacity Auction will have too short of a forward period and obligation period to support sustaining investments in existing assets.</p> <p>Some resources are already off-contract and other resources will be coming off contract in the next few years. These resources need a transitional mechanism in place in 2021 to continue making sustaining investments and to support agreements with third parties.</p>
<p><u>Resource Adequacy Engagement Plan</u></p>	
<p>What else needs to be considered in discussions on the high-level framework?</p>	<p>The high-level framework needs to address the transitional mechanism. Asset owners need clarity about how the transitional mechanism will adapt if implementation of the Resource Adequacy framework is delayed or cancelled. The ongoing delays to policy development and implementation have created uncertainty. There needs to be a clear default option so asset owners can start making investment decisions.</p> <p>There needs to be a discussion in the high-level framework about risk allocation and the cost of capital. Allocating risk to an asset owner increases the uncertainty of their future revenues. Higher uncertainty requires higher rewards to justify an investment, and therefore higher uncertainty drives a higher cost of capital and therefore higher costs to consumers.</p>

	<p>Asset owners could manage uncertainty if the risks being allocated related only to demand uncertainty and technological uncertainty. These risks are generally well understood and can be modeled with reasonable accuracy.</p> <p>In Ontario, there is significant policy risk that drastically alters future revenues by an unknown amount. This is a risk that cannot be modeled accurately and therefore allocating this risk to asset owners obscures the trade-off between risk and reward and undermines investor confidence.</p> <p>Stakeholders need to discuss whether it is appropriate to allocate policy risks to suppliers. If stakeholders agree that allocating policy risk to suppliers is not appropriate or is undesirable, the high-level framework should develop a mechanism to provide flexibility and accommodate policy uncertainty.</p> <p>Similarly, stakeholders need to discuss whether the uncertainty associated with the Market Renewal Program should be allocated suppliers or shared among suppliers and consumers. Buying unbundled capacity in 2023 and 2024 will place all of the uncertainty associated with the Market Renewal Program on suppliers.</p>
<p>What needs to be considered in future engagement phases to develop the details of the mechanisms in the framework?</p>	<ul style="list-style-type: none"> • Implementation of a transitional mechanism including how the transitional mechanism changes if implementation of the other Resource Adequacy mechanisms is delayed or cancelled • How to allocate policy risk • Capacity allocation between procurement mechanisms (and buffer for policy uncertainty) • Market power mitigation and mitigating the impact of subsidized new entry
<p>What other areas need to be discussed with stakeholders to operationalize the framework?</p>	<ul style="list-style-type: none"> • Authority to implement (market rules, direction, etc.) • Backstop mechanism (current market rules for reliability must run contracts prohibits their use for resource adequacy)