



**JULY 21, 2022**

# Information Session: Capacity Auction

# Purpose

To provide stakeholders with the following updates:

1. Status of the 2022 Capacity Auction enhancements
2. Forward Capacity Auction (FCA) Framework
3. Next Steps for the 2023 Capacity Auction engagement



# 2022 Capacity Auction

# Recap: Originally Proposed 2022 Auction Enhancements

## Enhancement #1: Capacity Qualification

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

## Enhancement #2: Performance Assessment Modifications

- Changes to performance assessment obligation and assessment framework to incent improved performance from acquired capacity resources

## Enhancement #3: Expand Participation

- Increase competition and cost effectiveness through enabling participation from generator-backed capacity imports

## Administrative Enhancements

- Modification to point-in-time rules
- Addition of zonal group constraints

# Market Rule Approval Process

Following the February 24 , and March 4 Capacity Auction engagement sessions, the IESO transitioned to the market rule amendment approval process with the Technical Panel (TP). The key milestones consisted of:

1. TP Vote to Post – to determine if the proposed rule amendments required further review and comment from stakeholders
2. TP Vote to Recommend (June) – to recommend the market rule amendments to the IESO Board
3. IESO Board approval

## Summary: Vote to Recommend (June 14, 2022)

- The Technical Panel voted against the originally proposed amendments for the 2022 Capacity Auction
- The rationale received from the Technical Panel was that the IESO should continue to engage on some outstanding aspects of the market participation framework to ensure the CA enhancements can achieve their intended goal

# Key Technical Panel Feedback

The areas that the Technical Panel members recommended further consultation with stakeholders generally with respect to demand response participation and the associated performance assessment framework. A summary of the items of feedback:

| Item  | Feedback  |
|---|---|
| Standby trigger price                           | The value for the standby trigger may no longer be appropriate considering current market conditions. In reviewing this value, IESO will also consider any effects this adjustment would have on the design of the associated standby availability charge |
| Contributor outage management                   | Concerns around the impact contributor outages have on assessed performance through the baseline, and request to implement a contributor outage management process.   |
| Outage management for demand response resources | Request for a formal outage management process implemented for demand response resources, similar to generation resources. The outcome of the engagement on this item will impact the implementation of the augmented availability charge.                |

# Revised 2022 Auction Enhancements

- The IESO Board reviewed the market rule amendments and TP member rationale and recommended the IESO revise the scope of the 2022 Capacity Auction enhancements to focus on enabling participation from generator-backed imports and the administrative enhancements.
- TP members supported the subset of enhancements for the 2022 Capacity Auction presented at the July 12 TP meeting
- The IESO board further recommended that proposed enhancements relating to capacity qualification and performance assessment modifications be brought forward for the 2023 capacity auctions. This allows the IESO to continue consulting stakeholders on the key pieces of feedback highlighted.

# Revised 2022 Auction Enhancements

## 2023 Auction Enhancements

### Enhancement #1: Capacity Qualification

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## 2022 Auction Enhancements

### Enhancement #3: Expand Participation

- Increase competition and cost effectiveness through enabling participation from generator-backed capacity imports

### Administrative Enhancements

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# Revised 2022 Auction Enhancements

## Enhancement #3: Expand Participation

- Increase competition and cost effectiveness through enabling participation from generator-backed capacity imports

## Administrative Enhancements

- Modification to point-in-time rules
- Addition of zonal group constraints

- The 2022 Capacity Auction will be administered using the same provisions as the 2020, and 2021 auctions, with the addition of generator-backed import resources
- Participants will enroll resources during pre-auction period
- Performance assessment framework unchanged, except for the addition of items specific to the assessment of generator-backed import resources

# Next Steps for 2022 CA Participation

The IESO will proceed with submitting proposed market rule amendments to the IESO Board of Directors based on the Technical Panel's July 12 vote in support of the rule amendments and implement those rules for the December 2022 Capacity Auction.

## Links:

- Capacity Auction Webpage ([Link](#))
- 2022 Capacity Auction Timelines Document ([Link](#))



# Forward Capacity Auction Framework

# Recap

In June, the IESO presented a Forward Capacity Auction (FCA) as one of the supplemental acquisition mechanisms under consideration to address capacity needs emerging beginning in 2025.

The FCA was originally proposed as a multi-year commitment (3 years), conducted under a single auction, that would be administered outside of the existing market rule & manual construct.

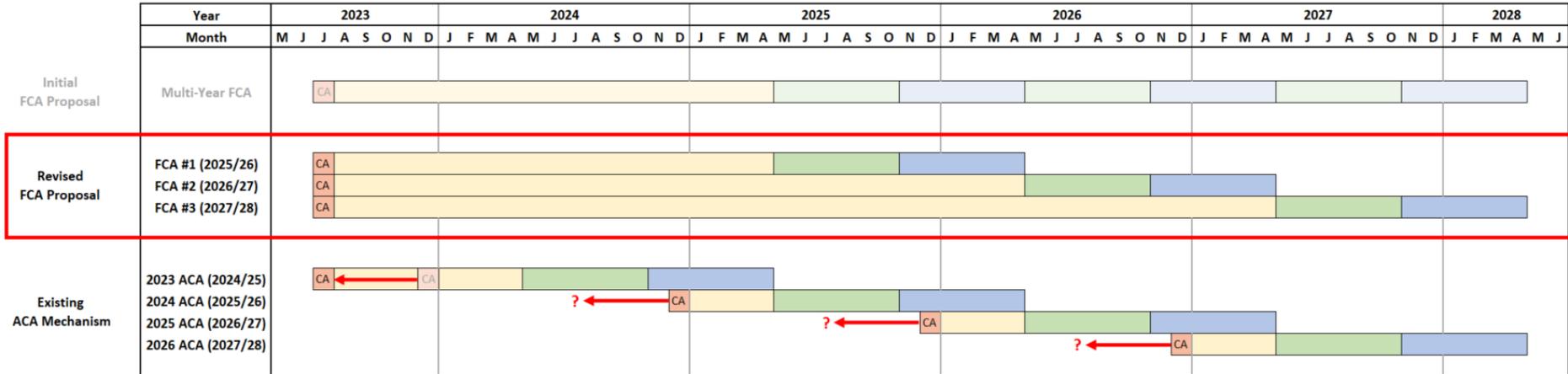
# Feedback Received

- Limited feedback was received on the original FCA proposal
- A reliability need continues to exist to address capacity shortfalls for 2025/26, in as early as 2023
  - Due to the tight timelines, the existing CA framework could be leveraged to design a new FCA mechanism
- Some feedback from stakeholders suggested that extending the forward period is of higher value, compared to a continuous 3-year commitment

# Revised FCA Proposal

- Three distinct auctions run sequentially, each for a future commitment period (with summer and winter obligation periods) and longer forward period
- FCAs to leverage construct of Market Rules and Manuals established for the existing annual capacity auction (ACA)
- The ACA will continue to be executed as final re-balancing auctions closer to each commitment period (typically held in December each year)

# Original vs. Revised FCA/ACA Timeline Proposal



**Legend**

|                   |    |
|-------------------|----|
| Capacity Auction  | CA |
| Forward Period    |    |
| Summer Obligation |    |
| Winter Obligation |    |

# Annual Capacity Auction Timelines

- Propose to align the timing of the 2023 ACA with the FCAs and conduct it in summer of 2023 instead of December
  - Would allow securing future obligations periods in chronological order
- Opportunity to shift future ACAs from December to earlier in the year
  - Would more closely align the auction with the release of the Annual Planning Outlook
  - Provides participants with longer forward periods
- Seeking stakeholder feedback
  - Is there support for shifting the ACA earlier in the year?
  - Are there any concerns?

# Forward Capacity Auction – Potential Benefits

**Greater Investment Certainty** - With a longer forward period , the proposed FCA could provide greater investment and revenue certainty

**Secure Incremental Capacity** - Potential to secure additional capacity incremental to what the ACA alone may procure

**Additional Commitment Opportunity** - Could serve as a competitive revenue opportunity for capacity suppliers who may not secure commitments through other acquisition mechanisms

# Objectives

1. Design the FCA as a more attractive investment opportunity through longer forward periods, to secure capacity from existing resources internal and external to Ontario
2. Work in conjunction with the ACA to secure capacity needs further in advance of 2025/26 when those needs are expected to appear
3. Design and implement models that ensure seamless participation in both the FCA & ACA, including utilizing common constructs (market rules & manuals) and IT tools, to the extent possible.



# Next Steps: 2023 CA Engagement Plan

# Objectives for 2023 Capacity Auction Enhancements

## Qualification (Transition to UCAP)

- Establish Qualified Capacity process to better reflect the performance capability of each resource type
- Ensure alignment between planning assessment and the auction in terms of UCAP (un-forced capacity) calculations

## Performance Assessment Framework Enhancements

- Reduce risk of low performance from acquired resources when delivering upon their capacity during hours of system need
- Explore the impact of poor performance on future UCAP values
- Improve confidence in and address concerns related to the value provided by resources secured in the auction

# Scoping the Engagement

- The IESO is seeking stakeholder input on priorities and areas of focus that will contribute to the engagement plan for future CA enhancements
- These enhancements are required to help meet the reliability needs identified in 2025/26, and achieve the stated objectives
- Stakeholder input on these priorities to inform the engagement plan is being requested

# Engagement Priorities

To finalize a CA engagement plan for future enhancements, the IESO is proposing the following priorities be included in the 2023 CA engagement:

- Forward Capacity Auction Framework and Design
- Qualification and performance assessment implementation for demand-side resources
- Demand Curve Review

The IESO is aware that certain topics and discussions are not proposed in the above list of priorities for this engagement; however, they appear suited in more focused outreach sessions before being contemplated as auction enhancements

## Next Steps

- Feedback on today's discussion, including the engagement priorities are being requested to [engagement@ieso.ca](mailto:engagement@ieso.ca) by **August 5**.
- IESO to incorporate feedback from today's session into a draft CA engagement plan by August, and include a roadmap for addressing issues outside the scope of 2023 auction enhancements.
- Please use the IESO feedback form provided (AODA compliant)

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# Thank You

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