

Resource Adequacy Engagement Update

Stakeholder Advisory Committee

August 11, 2020

SAC Input

- Input from SAC is requested to inform:
 - Approach to initiating Resource Adequacy stakeholder engagement

Background

- Extensive stakeholder engagement was conducted prior to the postponement of the Resource Adequacy engagement in January
- Input from stakeholders received through engagement on the Incremental Capacity Auction (ICA) High-level Design presented consistent advice on competitively acquiring resources
- The IESO has used this feedback to develop a draft set of tools that can be used as a starting point for discussion with stakeholders

Stakeholder Feedback on a Resource Adequacy Strategy

- Key feedback themes emerged through discussions with stakeholders:
 - Recognition that a “one-size-fits-all” approach won’t be sufficient to balance supplier, ratepayer and system operator risks and cost-effectively meet all of our needs
 - Different resource types have different risks, requirements and timelines for development that should be considered
 - Different tools are better suited to different resource types
 - Some resources are not suited to competitive acquisition mechanisms
 - System planning forecasts will have to align with any resource adequacy strategy we go forward with
 - Increased risk in Ontario markets due to regulatory and political uncertainty
- The IESO has used this feedback to develop a draft set of tools that can be used as a starting point for discussion with stakeholders

High-level Strategy for Discussion – Overall Considerations

- Our commitment to the use of competitive mechanisms, where possible, when acquiring resources, is based on our belief that it ensures cost-effective reliability while balancing consumer/supplier risks
- To maximize competition, and provide business planning certainty, resource adequacy needs should be planned and acquired for three distinct timeframes: short, mid and long-term
 - Flexibility in system planning must be maintained, in the event that system needs change
- Competitions should be tailored to the specific risks for various resource types (e.g. longer term commitments for resources with high capital costs, shorter terms for more flexible resources)

High-level Strategy for Discussion – Draft Set of Tools

- Capacity auctions will be a part of this strategy and will remain as the IESO's primary mechanism for acquiring smaller amounts of capacity to meet needs emerging over the short-term
 - Our use of capacity auctions for short-term needs helps manage the risk of over/under acquiring resources
- To meet relatively certain mid-term needs, capacity auctions or targeted RFPs are proposed to acquire existing resources of a minimum size that have material costs to re-invest and extend their capability
 - It is anticipated that larger resources, with relatively high capital costs and need for certainty, will be acquired in this timeframe
- To meet needs that are relatively certain over the long-term, RFPs will likely be required to acquire newly-built resources or existing resources that require major upgrades, recognizing these resources have long development times

High-level Strategy for Discussion – Timelines

- Engagement expected to be launched in the fall
- By Q1 2021, we expect to complete stakeholder engagement on the high-level strategy
- The strategy will need to be operationalized in 2023/24 so competitively acquired resources can be in operation by 2028/29 when larger capacity needs emerge
- In the meantime, we will continue to run capacity auctions to meet short-term needs

Resource Adequacy Engagement Objectives

- With stakeholder input, develop a strategy to competitively acquire resources to meet short, mid, and long-term electricity system capacity needs that balances cost-effectiveness and risk
- Obtain stakeholder input on how to transition to the long-term use of competitive mechanisms

Questions for SAC

- Does the high-level strategy reflect the major stakeholder considerations that should be used as a basis for this engagement?
- What additional information is needed to begin the discussion within the Resource Adequacy engagement?