

# Agenda Item Summary

**Date of Meeting:** February 27, 2019

**Presenter:** David Short, Director – Power System Assessments

**Agenda Item:** Meeting Ontario's Capacity Needs After 2019

**Purpose of item:**<sup>1</sup> Board Education

**Executive Summary:**<sup>2</sup> The IESO will evolve the Demand Respond (DR) Auction starting as early as December 2019 for a 2020 commitment period of capacity. This evolution is in response to the following:

- the Incremental Capacity Auction (ICA) timelines of a 2022 capacity auction for a 2025 commitment period,
- ICA stakeholders' request for an earlier auction mechanism by 2020/21, and
- a need for capacity starting as early as 2020.

The evolution of the DR Auction will take place over several auctions in order to meet Ontario's capacity needs prior to the start of the comprehensive ICA. The evolution of the DR auction will incorporate many of the ICA design features, including a progressive alignment of forward period timing.

**Significant Issues, Risks and Opportunities:**<sup>3</sup> With this evolution approach, we expect to see:

- early learning for both the ICA design team and auction participants as the DR auction evolves, and
- incorporation of any relatively simple and early ICA design

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<sup>1</sup> State the purpose of the agenda item: a) Education for a strategic issue, b) soliciting Feedback, or c) a Decision/Recommendation item.

<sup>2</sup> Provide concise summary of issue, identifying why the item is important to the Board, with distilled analysis, and Management's recommendation.

<sup>3</sup> Provide concise description of significant issues, risks and opportunities.

decisions into the transitioning capacity auction.

The evolution of the DR auction will not be as comprehensive as the ICA due to the relatively short timelines to adopt new and changing features from today's DR Auction. As such, several anticipated design features of the ICA will not be present in this transitional capacity auctions, and therefore, will result in a less robust mechanism to support reliability and market efficiency.

Key project risks include sufficient staff to support the project, gaps in design and/or testing due to the compressed timelines, stakeholder support and preparedness, and a stable regulatory environment.

**Materials<sup>4</sup>:**

Presentation

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<sup>4</sup> Materials (memo, slides, and reports) are to be concise, providing brief analysis of salient points, risks/opportunities, and Management's recommendations. If detailed report/ background information is necessary, it should be provided in an appendix with specific direction to key sections.

# Meeting Ontario's Capacity Needs After 2019

For the IESO Board of Directors

David Short, Director – Power System Assessments

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February 27, 2019

# Meeting Ontario's Capacity Need (1 of 2)

- For the past two years, the IESO has been working with stakeholders to develop a comprehensive Incremental Capacity Auction (ICA)
  - The ICA will provide, in the long-term, the most effective and efficient solution to meet Ontario's future capacity needs
  - In response to stakeholder feedback, the IESO is now targeting a late-2022 auction to address Ontario's summer 2025 capacity need
- Ontario has an opportunity to introduce additional competition to address emerging capacity needs

# Meeting Ontario's Capacity Need (2 of 2)

- IESO will evolve the Demand Response (DR) Auction starting as early as 2019 for a 2020 commitment
- We will...
  - benefit from earlier ICA stakeholdering and design discussions
  - begin the transition towards the ICA
  - increase competition by enabling existing Ontario dispatchable generators, capacity imports and other resources to compete with DR to meet Ontario capacity needs in a regular auction cycle
  - engage stakeholders and be mindful of timelines and capacity needs

# What is Needed Today and Tomorrow?

- Evolving the DR Auction to secure / acquire capacity for 2020-24:
  - Should be consistent with Market Renewal Program (MRP) principles
  - Align forward period to ICA design over time
  - At a minimum, the first step in the evolution should enable existing dispatchable resources to compete – recognizing cost and benefit in the given timelines. (i.e., demand response, non-contracted generators, imports, etc.)
- ...until the comprehensive ICA is implemented

## Next Steps

- Evolve the DR Auction in Q4 2019 to obtain capacity for 2020 and onwards:
  - Continue to transition the auction to improve efficiency and enable more competition among various resources
  - Consider cost, risk, resourcing and schedule for proposed mechanism
- Engage with stakeholders on design, leveraging comprehensive ICA project design
- Develop, design and begin change implementation including changes to:
  - Market Rules, Market Manuals, registration information system, IESO reporting, settlement tools, etc.
- In Q3 2019, the IESO will update Ontario capacity need for 2020+

# Market Design and Operating Principles

The IESO's Markets will continue to evolve consistent with the principles of:

- competition,
- transparency,
- certainty,
- efficiency, and
- implementability



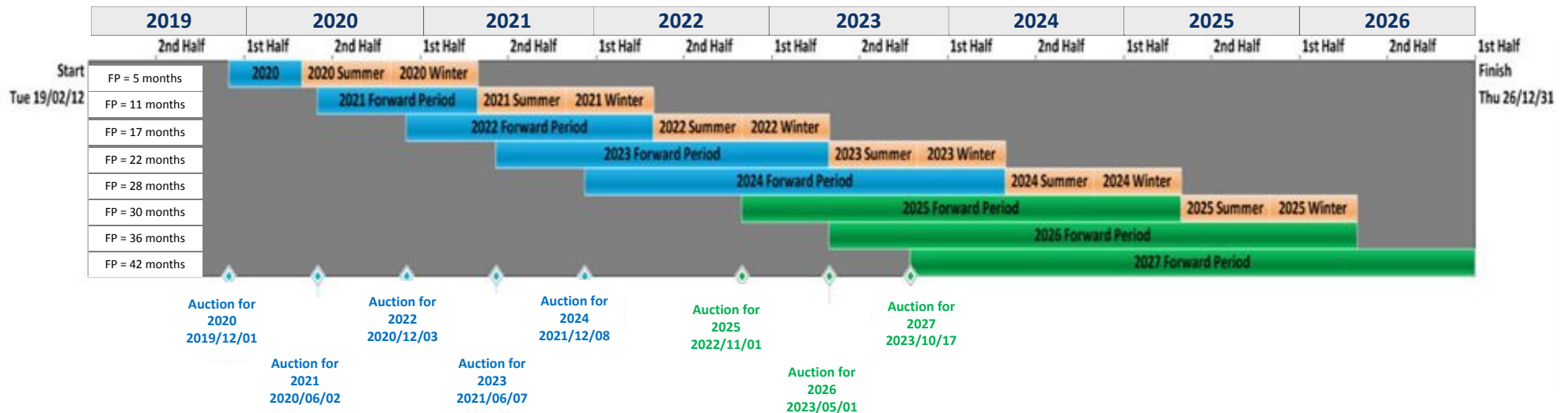
# Appendix



# Proposed Timelines for DR Auction Evolution\*

## HIGH LEVEL TIMELINE: EVOLUTION OF DR AUCTION

- = DR Forward Period
- = ICA Forward Period (note: ICA auction starts at Q4 2022, supporting 2025 May commitment period)
- = Commitment Period



**Assumptions:**

- 1) Auctions take place approximately bi-annually until forward period = 3.5 yrs.
- 2) First ICA takes place by Q4 2022.

\*The details presented are for illustrative purposes only and are subject to change during detailed design

# Enabling Resources\*

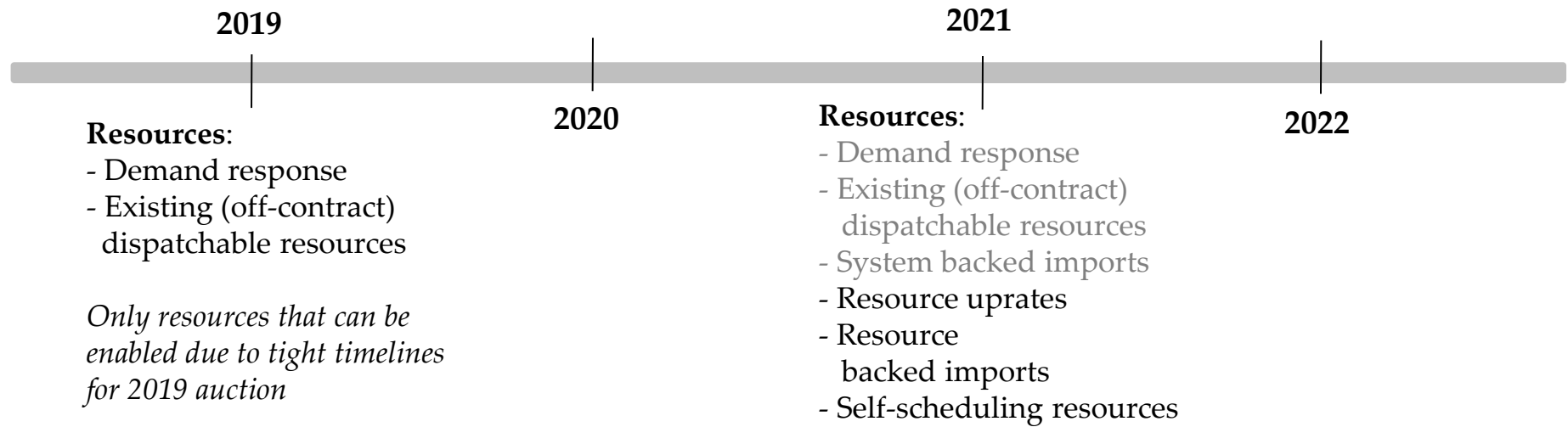
*Import timing depends upon enabling agreements with neighbouring jurisdictions*

**Resources:**

- Demand response
- Existing (off-contract) dispatchable resources
- System backed imports

**ICA commences**

*All resources able to participate in IESO Administered Market*



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# Key Risks

- Internal staffing to support design and development
- External stakeholder support/preparedness
- Regulator certainty
- Design/testing gaps due to compressed timelines
- ICA availability for 2025 commitment
- Neighbouring jurisdiction support for capacity imports