

Technical Panel – Rationale

Proposed Rule Amendments –Transitional Capacity Auction, Phase 1

On August 13, 2019, the Technical Panel voted in favour of recommending the following draft market rule amendments for consideration by the IESO Board.

Re: MR-00439-R00-R05: Transitional Capacity Auction, Phase 1

The following is the TP member vote with supporting rationale:

In favour: Robert Bieler, Ron Collins, Sarah Griffiths, Robert Lake, Phil Lasek, Robert Reinmuller, Sushil Samant, Joe Saunders, Jessica Savage, Vlad Urukov, Julien Wu

Opposed: David Forsyth

TP Member	Rationale to Support Vote
Bieler, Robert Representing: Consumers	The amendments as reviewed by the Technical Panel have been offered for stakeholder input and in my view the language reflects the intent of the policy approach for the Transitional Capacity Auction. I believe that implementing the capacity auction will provide greater competitiveness in the market and therefore benefits to consumers. While this approach may not be preferred by all stakeholders, this is transitional by definition and as such will evolve over time. There will be future opportunities to amend the Market Rules to address additional concerns should they arise.
Collins, Ron Representing: Energy Related Businesses and Services	I support the Market Rule amendments proposed by the IESO staff for the Transitional Capacity Auction. The proposed Market Rule amendments support the development of a capacity market to address future resource adequacy and increase flexibility in the IESO-administered market. Such amendments will encourage broader competition for establishment of capacity in a transparent and cost-effective manner.

<p>Forsyth, David</p> <p>Representing: Market Participant Consumers</p>	<p>I voted against the TCA proposed rules based on the fact that in my opinion the TCA design is fundamentally flawed without including the energy payment element for loads, and therefore discriminates against some market participants. I believe this violates the Electricity Act. The basis for this opinion is included in the joint submission from AMPCO and AEMA.</p>
<p>Griffiths, Sarah</p> <p>Representing: Other Market Participants</p>	<p>I voted today to approve the MRA for the Transition Capacity Auction as I have long advocated for markets and competition for the IESO to meet the capacity needs. However, without resolving how demand response resources are compensated for the value they provide to the IESO is an issue, and undermines the competition in this auction. Many DR Market Participants do not agree with the approval of the MR and asked me to vote against or abstain, and DR participants continue to ask the IESO to postpone the first Auction at least 6 months until this issue is resolved. Both AEMA and AMPCO have provided a legal brief to IESO staff that outlines how a TCA without resolving issues regarding just and reasonable compensation to DR resources is discriminatory.</p> <p>My vote is based on the acknowledgement that the IESO staff have outlined, at the DRWG, a path forward and that they continue to engage with market participants/interested parties on this topic. The DR resource is a valuable resource to the overall electricity system but it needs to be treated in a comparable manner to ensure the ratepayer and the system receive its true value.</p>
<p>Lake, Robert</p> <p>Representing: Residential Consumers</p>	<p>Representing consumers, I want our electricity system to develop into one where we have what economists call pure competition. If we would have had numerous suppliers competing at the time of deregulation we probably would have a competitive, mature electricity market today, like Sweden and Norway. While we might not initially get all details perfectly correct with this proposal, there will be accommodation to make changes in the future, after we have had some experience with TCA. This is one good step towards developing an efficient, competitive electricity market.</p>
<p>Lasek, Phil</p> <p>Representing: Market Participant Consumers</p>	<p>Generally supported the shift to a different program, adding that it might not be optimal but was still in the interest of power consumers.</p>

<p>Reinmuller, Robert</p> <p>Representing: Transmitters</p>	<p>I reviewed the comments provided and while feedback on behalf of DR participants has points that will need consideration, it was clear in the IESO plans that the DRA will evolve into the TCA and therefore due consideration will be made while finalizing the ultimate construct.</p> <p>In an attempt to ensure the system is adequately prepared to meet future needs continued progress has to be made now and consideration for DR will have to be integrated as we develop the ultimate market construct. DR resources that are traditional load customers have been connected to the grid on the basis of their electricity needs at the time and as such, transmission, distribution and generation infrastructure was developed to meet their demand over a number of years. In most cases investments in the system are amortized and recovered through rates over a long period of time. When we discuss DR and equivalency with generation a more in-depth study needs to be undertaken to fully understand how existing upstream infrastructure investments (generation and system) are affected by DR. The current market takes into account the system needs and provides multiple quantifiable ways to fulfill capacity and energy requirements. As we transform to better integrate DR, DER, storage, load displacement etc., we must ensure that we can guarantee the long term viability of the solution, while quantifying the exact value of each resource in the overall context of the system need. Critical elements like voltage control, frequency control, phase angle, inertia, response time, etc. will need to be reviewed along with regulating local load quantities. As AMPCO indicated, a “reliable and affordable energy supply is critical” and we can only achieve that goal with thoroughly quantifying the value proposition of all critical resources included in the TCA.</p> <p>I trust that IESO will follow through with including DR and other existing and new resources into the ultimate TCA construct. This is why I vote yes to recommend sending the TCA MR amendments to the IESO BOD for consideration.</p>
<p>Samant, Sushil</p> <p>Representing: Market Participant Generators</p>	<ul style="list-style-type: none"> • The immediate implementation of the TCA will assist the IESO in its goal of Reliability • Increased competition in the TCA will put downward pressure on the capacity auction clearing prices, which is of interest to Ratepayers • The MRAs associated with the TCA have been thoroughly discussed and comments received at the appropriate Stakeholder Engagement(s) <ul style="list-style-type: none"> ○ The IESO is in the process of making changes for the use of Utilization Payments for out-of-market activations for Hourly Demand Resources (HDR).

- The IESO has agreed to further stakeholder the use of Utilization Payments for in-market or economic activations of all Demand Response (DR) resources.
- The issue concerning compensation to DR resources for economic activations is a wider market issue that would require years of stakeholdering and has implications for the entire design of the Ontario's electricity market (energy and capacity). As a result, it is not worth holding up this worthy TCA initiative for an issue that will most likely end up having little relevance or merit after further study (see my note below).
- Furthermore, there has been a non-material amount of economic activations of DR resources in the past. It is anticipated that this will continue into the near future. This weakens the argument that the TCA initiative is flawed.

- As a result, I feel that the MRAs reflect the intent of the design as contemplated in the Stakeholder Engagement(s)
- The MRAs are a proper fit with other Market Rules

Note:

The legal brief submitted by AMPCO/AEMA and made public by the IESO on August 12, 2019 further solidified my decision to vote in favour. This is because its main argument for delaying the TCA so that the IESO could address the issue of compensation to DR resources seemed to rely on Item 33 (Page 6) which discusses the basis upon which FERC made its March 2011 Order.

In particular, the recommendations in FERC Order No. 745 as described in the legal brief hinge on the condition that there is a positive "net benefits test" which measures the "billing unit effect" when dispatching DR resources. I felt that in Ontario, this threshold requirement of a positive "net benefits test" is not met.

My reasoning was that while costs (i.e. HOEP or MCP) would be reduced when dispatching DR resources, there was a commensurate increase in end user rates as fewer units are consumed. This increase in end user rates is the result of the Global Adjustment increasing whenever the price of electricity (i.e. HOEP or MCP) decreases. In effect, while fewer MWhs would be consumed as a result of DR, the fixed costs of maintaining the electricity system are still the same. This results in an increase to what FERC refers to as the billing unit effect.

	As a result, I believe the requirement of a positive “net benefits test”, if similarly adopted in Ontario, would not be met.
Saunders, Joe Representing: Distributors	The proposed amendments reflected the evolution of the existing market, and were important to the system as a whole. He acknowledged the concerns raised by market participants, but said he supported the package as a first step, on the understanding that the IESO will take stakeholders’ concerns into account.
Savage, Jessica Representing: IESO	The proposed Market Rule amendment is a “first step towards enabling competition to provide reliability services, in this case, capacity. Building on the existing DR auction and enabling additional resources to compete now is a prudent approach to maximizing future participation when a more significant capacity need emerges in several years’ time.
Urukov, Vlad Representing: Market Participant Generators	<p>The Market Rule amendment package presented to the Technical Panel reflects solely the implementation of the first phase of a staged approach transitioning the existing Demand Response Auction to a more competitive auction process. The Market Rule package was <i>stakeholdered</i> in a dedicated stakeholder engagement and reflects feedback provided by participants. In my assessment, the proposed Market Rules reflect the intent of broadening participation by enabling auction bidding of uncommitted, dispatchable generators, while retaining all features and functionality required by Hourly Demand Response (HDR) and dispatchable loads to continue to participate. In addition, the proposed rules appropriately retain features essential for the execution and settlement of the remaining commitments associated with the last Demand Response auction.</p> <p>With consideration given to the submissions by AMPCO and AEMA, I support implementing the proposed Market Rule amendments as drafted on the following basis: The IESO has demonstrated and reaffirmed that based on history, existing Demand Response Auction participants have not been utilized materially over and above out-of-market activations for testing. The IESO is in the process of addressing out-of-market activations through ongoing stakeholder engagement, targeting an implementation in advance of the first auction held under the proposed new rules.</p> <p>The assessment of the appropriateness of other forms of payments is a complex question that must consider a wide range of economic aspects across the breadth of applicable costs and supplier types. The IESO has committed to evaluate and report on an appropriate path forward in the context of the Ontario market in subsequent phases of auction development. While I support and encourage the IESO to ensure that the issue is addressed in a thorough and transparent fashion, this effort need not delay the implementation of the proposed set of Market Rules.</p>

<p>Wu, Julien</p> <p>Representing: Wholesalers</p>	<p>The proposed Market Rule amendments are necessary and important for planning and reliability, with the Transitional Capacity Auction coming into force very quickly. However, the deliberation has been reminiscent of the discussion initiated previously by Resolute Forest Products, where it felt as though nothing had been resolved in the end because both the substance and the process were so complex. In that instance, there was a dispute resolution going on in parallel with the Technical Panel discussion. Julien voted in favour of the draft amendment so that the concerned parties would not have its resolution process held up by the Panel, and could take the matter forward to the Board if they so choose as a next step.</p>
--	---