



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

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| Identification No.: | MR-00439-R03 | | |
| Subject: | Transitional Capacity Auction | | |
| Title: | Energy Market Participation | | |
| Nature of Proposal: | <input checked="" type="checkbox"/> Alteration | <input type="checkbox"/> Deletion | <input checked="" type="checkbox"/> Addition |
| Chapter: | 3, 7 | Appendix: | |
| Sections: | Chapter 3 – 6.3, 6.3A, & 6.5, Chapter 7 - 3.4, 18.9, 19.4, 19.5, 19.7 (new) | | |
| Sub-sections proposed for amending: | | | |

PART 2 – PROPOSAL HISTORY

| Version | Reason for Issuing | Version Date |
|--------------------------------------|---|-----------------|
| 1.0 | Draft for Stakeholder Review and Comment | May 15, 2019 |
| 2.0 | Submitted for Technical Panel Review and Comment | June 18, 2019 |
| 3.0 | Posted for Stakeholder Review and Comment | June 27, 2019 |
| 4.0 | Submitted for Technical Panel Vote | August 6, 2019 |
| 5.0 | Recommended by Technical Panel; Submitted to IESO Board | August 16, 2019 |
| | | |
| | | |
| Approved Amendment Publication Date: | | |
| Approved Amendment Effective Date: | | |

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

The IESO proposes to amend the market rules to evolve the Demand Response Auction (DRA) into the Transitional Capacity Auction (TCA) to address capacity needs in Ontario.

Over its four auctions, the DRA has proven successful in driving down capacity costs and increasing competition. Enhancing the IESO's approach to capacity auctions this year by opening participation to other resources is another step toward a more competitive electricity marketplace; it moves Ontario's electricity marketplace down the path of efficiency, competition, and transparency – the key principles of the market renewal efforts.

This proposal will be discussed as part of the Transitional Capacity Auction stakeholder engagement initiative before consideration by the Technical Panel.

Further information on the Transitional Capacity Auction stakeholder engagement is found [here](#).

Background

Capacity market participants with a capacity obligation will be required to deliver on their capacity obligation through participation in the energy market as an hourly demand resource, dispatchable load or non-committed generator. These resource types will be required to submit offers into the energy market (day-ahead and real-time) for every hour of the availability window.

Discussion

Minor changes have been proposed to Chapter 3 to reflect changes to defined terms and to show the shift from demand response programs to the Transitional Capacity Auction.

Significant changes have been proposed for Chapter 7. Defined terms have been updated to show the shift from demand response programs to the Transitional Capacity Auction. New sections have been added in Section 18.9 to further describe qualified capacity, and to provide more clarification on the transfer of auction capacity. Section 19.7 - Energy Market Participation for Capacity Generation Resources has been added. This section outlines the requirements for Market Participants with Capacity Generation Resources to participate in the energy market.

This market rule amendment proposal was first circulated to stakeholders and market participants who are participating in the Transitional Capacity Auction stakeholder engagement. In response to stakeholder feedback, this proposal contains a new section, 18.9.1.5C to allow a transfer of a capacity obligation between zones where the same capacity market participant is both the capacity transferor and the capacity transferee. Additionally, stakeholders noted an incorrect reference in sections 19.7.8 and 19.7.10 which has been corrected in this version.

Specific changes to the market rules are listed below. There are five additional rule amendment

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

packages that form the entirety of the proposed rule changes for the TCA.

PART 4 – PROPOSED AMENDMENT**Chapter 3****6.3 Events of Default**

- 6.3.1 An event of default occurs if a market participant or the person that has provided prudential support, ~~demand response security, or demand response~~ or capacity prudential support in relation to the market participant:
- 6.3.1.1 does not make a payment in full required under the *market rules* when due;
 - 6.3.1.2 fails to provide payment in full of any amount claimed by the IESO under any prudential support, ~~demand response security, or demand response~~ or capacity prudential support;
 - 6.3.1.3 fails to provide and maintain prudential support, ~~demand response security, or demand response~~ capacity prudential support required to be supplied under the market rules within the time required;
- 6.3.2 A *market participant* shall notify the *IESO* immediately upon:
- 6.3.2.1 the occurrence of an *event of default* or any circumstance that may give rise to an *event of default* referred to in sections 6.3.1.4 to 6.3.1.11; or
 - 6.3.2.2 the appointment of a receiver or receiver and manager or person having a similar or analogous function under the laws of any relevant jurisdiction in respect of any property of the *market participant* or the *market participant's* prudential support provider, ~~demand response security, or demand response~~ or capacity prudential support provider.
- 6.3.3 Where a *market participant* or a person providing prudential support, ~~demand response security, or demand response~~ or capacity prudential support on behalf of that *market participant* commits an *event of default*, the IESO may:

- 6.3.3.1 issue to the *market participant* a *notice of intent to suspend* stating that the *market participant* will be suspended unless it remedies the *event of default* within 2 *business days* or such longer period as specified in the notice;
- 6.3.3.2 immediately draw upon part or all of the *market participant's* *prudential support*, ~~demand response security, or demand response~~or capacity *prudential support* for either the amount of any money owing to the *IESO* under the *market rules* or where the *market participant's* *prudential support*, ~~demand response security, or demand response~~or capacity *prudential support* is due to expire or terminate and has not been replaced as required under section 5.2.5, 5A.2.3 or 5B.2.4 of Chapter 2, the undrawn part of the *prudential support* ~~or demand response security~~ notwithstanding the provisions of section 5.7.2.5 of Chapter 2 until such time as the *market participant* has replaced its *prudential support*, ~~demand response security, or demand response~~capacity *prudential support*; and
- 6.3.3.3 set-off any amounts due or credited to the *market participant* under the *market rules*, including those set out in section 4.8.2 of Chapter 9, and any program administered through the billing and *settlement* systems of the *IESO* against any amounts owed by the *market participant*.

6.3A Suspension of a Market Participant

- 6.3A.2 The *IESO* shall *publish* the details of the *suspension order* and provide a copy of the *suspension order* to the *OEB* and the *transmitter, distributor and/or* other *market participant* to whose *facilities* the suspended *market participant* is connected.
- 6.3A.4 The *IESO* may do one or more of the following to give effect to a *suspension order*:
 - 6.3A.4.1 reject any *bid, offer, TR bid* or *TR offer* submitted by the *suspended market participant*;
 - 6.3A.4.2 set-off any amounts otherwise due to the *suspended market participant* against any amounts owed by the *suspended market participant* under the *market rules*;
 - 6.3A.4.3 issue a *disconnection order* to the *transmitter, distributor and/or* other *market participant* to whose *facilities* the *suspended market participant's* *facilities* are connected and provide a copy to the *OEB*; or

- 6.3A.4.4 make such further order or issue such directions to the *suspended market participant* as the *IESO* determines appropriate.
- 6.4.2 The *IESO* shall *publish* the details of the *termination order* and provide a copy of the *termination order* to the *OEB* and to the *transmitter, distributor and/or other market participant* to whose *facilities* the terminated *market participant's facilities* are connected.
- 6.4.3 When the *IESO* issues a *termination order*, it may at the same time, if it has not already done so, issue a *disconnection order* to the *transmitter, distributor and/or other market participant* to whose *facilities* the terminated *market participant's facilities* are connected and provide a copy to the *OEB*.

6.5 De-Registration of a Market Participant's Facilities

- 6.5.3 If the *IESO* deregisters some or all of a *market participant's registered facilities*, it may at the same time issue a *disconnection order* to the relevant *transmitter, distributor and/or other market participant* to whose *facilities* the *market participant's facilities* which is subject of the deregistration are connected and provide a copy to the *OEB*.

Chapter 7

3.4 The Form of Dispatch Data

- 3.4.1.6 for a demand response market participant with an hourly demand response resource, a demand response energy bid to reduce its energy consumption during a specified availability window and ~~commitment~~obligation period in accordance with the applicable market manual.

18.9 ~~Demand Response~~ Capacity Obligation Transfers

- 18.9.1 A ~~demand response~~capacity transferor may, subject to *IESO* approval and in accordance with the applicable *market manual*, request a transfer of all or a portion of its ~~demand response~~-capacity obligation to a ~~demand response~~capacity transferee provided that the following criteria are met:
- 18.9.1.1 the quantity to be transferred does not exceed the difference between the ~~demand response~~capacity transferee's qualified ~~demand response~~ capacity, and its existing ~~demand response~~-capacity obligation for the applicable ~~commitment~~obligation period;

- 18.9.1.1.1 for the purposes of 18.9.1.1, the *qualified capacity* refers to the *qualified capacity* received by the *capacity transferee* in the *obligation period* for which the *quantity* is being transferred.
- 18.9.1.2 the ~~*demand-response capacity*~~ *transferor* provides written confirmation to the *IESO* from the ~~*demand-response capacity*~~ *transferee* of its willingness to accept the transfer of a ~~*demand-response capacity*~~ *obligation* from the ~~*demand-response capacity*~~ *transferor*;
- 18.9.1.3 the *capacity obligation* transfer shall consist of the same attributes (e.g. *physical or virtual*) and be of the same *resource type*, as detailed in the applicable *market manual*, as the ~~*demand-response capacity*~~ *transferor's demand-response capacity obligation*; ~~and~~
- 18.9.1.4 the quantity to be transferred is in increments of 0.1MW, and the resulting ~~*demand-response capacity*~~ *obligations* for both the ~~*demand-response capacity*~~ *transferor* and ~~*demand-response capacity*~~ *transferee* following the transfer shall be 0 MW, or greater than or equal to 1 MW;
- 18.9.1.5 the *capacity obligation* to be transferred is within the same zone;
- 18.9.1.6 if the *capacity obligation* was acquired through a *transitional capacity auction*, the *capacity obligation* may be transferred between zones where the *transitional capacity auction clearing prices* in the two respective zones are equal to the Ontario-wide *transitional capacity auction clearing price*;
- 18.9.1.7 For the purposes of 18.9.1.6, the *capacity transferor* and the *capacity transferee* may be the same *capacity auction participant*;
- 18.9.1.8 *capacity obligation* transfers must not result in the receiving zone reaching a *capacity auction zonal constraint*.
- 18.9.2 For each transfer request that satisfies the criteria in section 18.9.1, the *IESO* shall determine the ~~*demand-response capacity*~~ *transferee's* revised ~~*demand-response capacity*~~ *auction deposit* and/or ~~*demand-response capacity*~~ *prudential support obligation*, as applicable, in accordance with section 18.3.2 and section 5B.3.3 of Chapter 2.
- 18.9.3 The ~~*demand-response capacity*~~ *transferee* shall provide the *IESO*, within five *business days* of receiving notification from the *IESO* or within such a longer period of time as may be agreed between the *IESO* and the ~~*demand-response capacity*~~ *transferee*, any additional ~~*demand-response capacity*~~ *auction deposit* and/or ~~*demand-response capacity*~~ *prudential support obligation* that may be required as a result of a transfer request.

- 18.9.4 After the revised ~~demand-response~~capacity auction deposits and/or ~~demand-response~~capacity prudential support obligations have been satisfied by the ~~demand-response~~capacity transferee, the IESO shall notify the ~~demand-response~~capacity transferor and ~~demand-response~~capacity transferee of its approval or rejection, and the IESO shall publish updated post-auction reports pursuant to section 18.8.

19.4 Energy Market Participation for Hourly Demand Response Resources

- 19.4.1 A ~~demand-response~~capacity market participant with a ~~demand-response~~capacity obligation participating with an hourly demand response resource shall be eligible for an availability payment in accordance with the applicable market manual. Availability payments may be offset by non-performance charges in accordance with section 4.7J of Chapter 9.

Standby and Activation Notices

- 19.4.2 If an hourly demand response resource has a day-ahead schedule of record or a pre-dispatch schedule less than the resource's total bid quantity, or if the applicable pre-dispatch shadow price for an hourly demand response resource is equal to or greater than the standby notice price threshold, determined by the IESO, for at least one hour during the dispatch day availability window, the IESO shall issue a standby notice to the applicable ~~demand-response~~capacity market participant by 07:00 EST in accordance with the applicable market manual.
- 19.4.3 If the IESO does not issue a standby notice to a ~~demand-response~~capacity market participant by 07:00 EST, the ~~demand-response~~capacity market participant shall remove their bids for the hourly demand response resource as soon as practicable and before 9:00 EST. A ~~demand-response~~capacity market participant that does not remove their bids for the hourly demand response resource before 9:00 EST shall comply with any corresponding activation notices issued by the IESO in accordance with section 19.4.5.
- 19.4.4 The IESO shall issue an activation notice to a ~~demand-response~~capacity market participant ahead of the activation period, in accordance with the applicable market manual if a standby notice has been issued in accordance with section 19.4.2 or a ~~demand-response~~capacity market participant has not removed their bids in accordance with section 19.4.3, and the applicable hourly demand response resource has a pre-dispatch schedule less than the resource's total bid quantity for at least one hour during the dispatch day availability window.
- 19.4.5 If a ~~demand-response~~capacity market participant receives an activation notice pursuant to section 19.4.4, the ~~demand-response~~capacity market participant shall comply with the activation notice, unless such a reduction would

endanger the safety of any person, damage equipment, or violate any applicable law. In such circumstances, the ~~demand-response capacity~~ market participant shall notify the IESO as soon as practicable.

- 19.4.6 A ~~demand-response capacity~~ market participant may be subject to non-performance charges, and the IESO may take action pursuant to sections 19.2.2 and 19.2.3 if a ~~demand-response capacity~~ market participant does not comply with an activation notice pursuant to this section 19, in accordance with the applicable market manual. The ~~demand-response capacity~~ market participant may also be subject to compliance actions in accordance with section 6 of Chapter 3.
- 19.4.7 A ~~demand-response capacity~~ market participant that expects its hourly demand response resource to operate in a manner that differs materially from the activation notice issued to it in accordance with this section 19 shall notify the IESO as soon as possible and in accordance with the applicable market manual.
- 19.4.8 The IESO may disqualify from future participation in the ~~demand-response capacity~~ auction any ~~demand-response capacity~~ market participant's hourly demand response resource participant that fails to reduce its consumption when called upon in accordance with this section 19.

Non-performance Events for Hourly Demand Response Resources

- 19.4.9 ~~A-In the event of a material reduction in the demand response capacity of an hourly demand response resource, associated with a capacity obligation acquired through a transitional capacity auction, the capacity market participant shall submit non-performance events, provided that the demand-response market participant notifies~~ notify the IESO as per the procedures and criteria specified in the applicable market manual.
- 19.4.9A In the event of a material reduction in the demand response capacity of an hourly demand response resource, associated with a capacity obligation acquired through a demand response auction, the demand response market participant shall notify the IESO as per the procedures and criteria specified in the applicable market manual.
- 19.4.10 A ~~demand-response capacity~~ market participant shall reduce its bid to take into account and reflect the maximum demand response capacity that it reasonably expects it can provide due to any non-performance event ~~in a commitment~~ related to an hourly demand response resource in an obligation period.

Activation Testing for Hourly Demand Response Resources

- 19.4.11 The IESO may, in accordance with the applicable *market manual*, direct a ~~demand-response~~capacity market participant with a ~~demand-response~~capacity obligation to perform activation testing for each hourly demand response resource up to a maximum of two test activations per ~~commitment~~ obligation period to verify that a ~~demand-response~~-capacity obligation is deliverable by the ~~demand-response~~capacity market participant.
- 19.4.12 If a ~~demand-response~~capacity market participant fails activation testing performed pursuant to section 19.4.11, the ~~demand-response~~capacity market participant shall be subject to non-performance charges in accordance with the applicable *market manual*. Failure during activation testing shall be considered a breach of the *market rules* and may result in sanctions in accordance with section 6.2 of Chapter 3.
- 19.4.13 The IESO shall provide a ~~demand-response~~capacity market participant day-ahead notification of test activations pursuant to 19.4.11 and the test activation shall occur within the availability window of a ~~commitment~~an obligation period.
- 19.4.14 The test activation shall occur in accordance with the hourly demand response resource activation process specified in this section 19.4.
- 19.4.15 The hourly demand response resource shall not be entitled to compensation for any costs related to any valid test activation conducted during a commitment period pursuant to this section 19.4.

19.5 Energy Market Participation for Dispatchable Loads with ~~Demand Response~~ Capacity Obligations

- 19.5.1 A ~~demand-response~~capacity market participant with a ~~demand-response~~ capacity obligation participating as a dispatchable load shall be eligible for an availability payment, in accordance with the applicable *market manual*. Availability payments may be offset by non-performance charges in accordance with section 4.7J of Chapter 9.

Dispatch of Resources

- 19.5.2 The IESO shall schedule a dispatchable load with a ~~demand-response~~ capacity obligation in the real-time market and issue a dispatch instruction to a dispatchable load with a ~~demand-response~~-capacity obligation in accordance with Chapter 7.
- 19.5.3 A dispatchable load with a ~~demand-response~~ capacity obligation shall comply with IESO dispatch instructions in accordance with Chapter 7.
- 19.5.4 The IESO may disqualify from future participation in the ~~demand~~ ~~response~~transitional capacity auction any ~~dispatchable-load-facility~~capacity

market participant that fails to reduce its consumption when called upon in accordance with this section 19.

Outage Notification Requirements for Dispatchable Loads with a ~~Demand Response~~ Capacity Obligation

- 19.5.5 Each *dispatchable load* with a ~~demand response~~ capacity obligation shall comply with the *outage* notification requirements of Chapter 5.
- 19.5.6 A *dispatchable load* with a ~~demand response~~ capacity obligation shall reduce its *bid* to take into account and reflect the maximum *demand response capacity* that it reasonably expects it can consume due to any *outage*.

Activation Testing for Dispatchable Load Resources

- 19.5.7 The *IESO* may, in accordance with the applicable *market manual*, direct a *dispatchable load* with a ~~demand response~~ capacity obligation to perform activation testing for each resource up to a maximum of two activation tests per ~~commitment obligation~~ period to verify that a ~~demand response~~ capacity obligation is deliverable by the ~~demand response~~ capacity market participant.
- 19.5.8 If a ~~demand response~~ capacity market participant fails activation testing performed pursuant to section 19.5.7, the ~~demand response~~ capacity market participant shall be subject to non-performance charges in accordance with the applicable *market manual*. Failure during activation testing shall be considered a breach of the *market rules* and may result in sanctions in accordance with section 6.2 of Chapter 3.
- 19.5.9 The *IESO* shall provide a *dispatchable load* with a ~~demand response~~ capacity obligation day-ahead notification of test activation and the test activation shall occur within the *availability window* of a ~~commitment~~ an obligation period.
- 19.5.10 The test activation shall occur in accordance with the *dispatch instructions* for a *dispatchable load facility* specified in this section 19.5.
- 19.5.11 The *dispatchable load facility* shall not be entitled to compensation for any costs related to any valid test activation conducted during a ~~commitment~~ an obligation period pursuant to this section 19.5.

19.7 Energy Market Participation for Capacity Generation Resources

- 19.7.1 A capacity market participant satisfying its capacity obligation with a capacity generation resource shall be eligible for an availability payment, in

accordance with this section and the applicable *market manual*. Availability payments may be offset by non-performance charges in accordance with section 4.7J of Chapter 9.

Dispatch of Resources

19.7.2 The IESO shall schedule a *capacity generation resource* in the *energy market*, and issue *dispatch instructions* in accordance with Chapter 7.

19.7.3 A *capacity generation resource* shall comply with *IESO dispatch instructions* in accordance with Chapter 7.

19.7.4 The IESO may disqualify from future participation in the *transitional capacity auction* any *capacity market participant* that fails to inject energy when called upon in accordance with this section 19.

Outage Notification Requirements for *Capacity Generation Resource* with a Capacity Obligation

19.7.5 Each *capacity generation resource* shall comply with the *outage* notification requirements of Chapter 5.

19.7.6 A *capacity generation resource* shall reduce its *offer* to reflect the maximum capacity that it reasonably expects it can inject due to any *outage*.

Activation Testing for Generation Resources

19.7.7 The IESO may, in accordance with the applicable *market manual*, direct a *capacity market participant* to perform activation testing for each *capacity generation resource* up to a maximum of two activation tests per *obligation period* to verify that a *capacity obligation* can be satisfied by the *capacity market participant*.

19.7.8 If a *capacity market participant* fails an activation test performed pursuant to section 19.7.7, the *capacity market participant* shall be subject to non-performance charges in accordance with the applicable *market manual*. Failure during activation testing shall be considered a breach of the *market rules* and may result in sanctions in accordance with section 6.2 of Chapter 3.

19.7.9 The IESO shall provide a *capacity generation resource* day-ahead notification of test activation and the test activation shall occur within the *availability window* of an *obligation period*.

19.7.10 The test activation shall occur in accordance with the *dispatch instructions* specified in this section 19.7.

PART 5 – IESO BOARD DECISION RATIONALE

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