

# Market Renewal – Incremental Capacity Auction Stakeholder Engagement Plan

## I. Introduction and Context

The IESO invites stakeholders to participate in and provide feedback on the design and development of an Incremental Capacity Auction (ICA). The ICA Project will develop an enduring market-based mechanism that will secure the capacity needed to ensure Ontario's resource adequacy needs are met cost effectively. Developing an ICA is a key element of the IESO's Market Renewal Program.

This Stakeholder Engagement Plan outlines the background, details around the stakeholder engagement process, and timelines for the development of an incremental capacity auction.

### Market Renewal Program Overview

The Market Renewal Program (MRP) is a significant set of initiatives that will amount to a fundamental redesign of Ontario's electricity markets and prepare us for future structural and technological changes. The IESO began discussions with stakeholders in April 2016 about developing a Market Renewal Program. The MRP addresses known issues with the current design, recognizes the significant changes that have taken place in the supply mix, will enable new technologies and new participation frameworks in the sector and ensure that the market will support future change. The proposed changes under Market Renewal are:

- Single Schedule Market
- Day-Ahead Market
- Enhanced Real-time Unit Commitment
- Incremental Capacity Auction and Capacity Trade
- More Frequent Intertie Scheduling
- Other mechanisms to address emerging operability issues

### Benefits Case

A key element in the first phase of engagement on Market Renewal was to develop a Benefits Case that looked at a suite of proposed market changes, considered the experience of other jurisdictions in making similar changes and their applicability to Ontario, and then estimated the range of potential net benefits that might accrue from these changes.

The IESO retained the Brattle Group to prepare the Benefits Case analysis which was developed over a period of 8 months and supported by extensive stakeholder consultations internally and

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externally. The analysis determined that the proposed changes would result in net benefits expected to reach \$3.4 billion over the 10-year study horizon, meaning that the estimated benefits of the initiative significantly outweigh estimated implementation costs of \$200-\$300 million. It would also result in a more efficient, stable marketplace with competitive and transparent mechanisms. The Benefits Case can be viewed [here](#).

### Market Renewal Working Group

Early in the course of consultation, stakeholders identified a need for a focused stakeholder working group to support in depth discussion on technical, strategic and policy issues related to Market Renewal. In response, the IESO solicited nominations for participation in a Market Renewal Working Group (MRWG). Over the course of the initial engagement, the MRWG played a key role in providing input into the development of the Benefits Case and in identifying early strategic issues related to the Program.

Going forward, the MRWG will continue to serve as a representative stakeholder forum to guide, advise and inform the IESO on important issues that will impact the overall success of Market Renewal Program. The MRWG is part of the IESO's enhanced framework for Market Renewal which is discussed further below. Information on membership and Terms of Reference are available on the MRWG webpage.

### Stakeholder Engagement Framework

The implementation of this Engagement Plan will be in accordance with the IESO's approved engagement principles.

This is a public engagement process. All materials will be posted on the IESO engagement page for this initiative. In addition, any information supplied by interested parties will be posted (with consent) to the designated engagement webpage.

### Market Renewal Engagement Framework

The IESO together with stakeholders has developed an enhanced engagement framework for the Market Renewal Program. The Market Renewal Engagement framework will be applicable to all engagements under the MRP.

This framework is comprised of:

- individual stakeholder engagements as the vehicle for design discussion and development;
- technical sub-committees, if and when needed, for focused discussion on specific issues

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- the Market Renewal Working Group (MRWG) to support overarching strategic and policy issues
- the CEO Roundtable to share information, issues and create alignment at the executive level

Within the stakeholder engagement, there will be opportunities to provide input through various channels such as face-to-face meetings, webinars, information sessions, conference calls and/or written feedback. As outlined above, the IESO may, in consultation with stakeholders, develop one or more smaller sub-groups to examine a particular issue or set of issues in further detail. The sub-group would report back to the larger stakeholder engagement on findings and any recommendations.

The IESO will consider all relevant input and illustrate how feedback was considered to shape the stated objectives.

### MRWG and Issue Resolution

The IESO anticipates that in the course of design discussions there may be instances of disagreement between and among stakeholders on the preferred option for one or more design elements. In cases where this is not resolved in the engagement, this would be brought forward to the MRWG for focused discussion and review with the goal of arriving at some kind of 'substantial consensus' on how to proceed by the membership. This additional step in the process is intended to instill greater confidence in the governance of this engagement and ensure that it continues to be a stakeholder-driven initiative.

### The Design Phase

With the completion of the Benefits Case, the IESO and stakeholders will transition into the 'Design Phase' with the goal of developing high level designs for each of the elements within the workstreams depicted below.

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Work Stream	Design Goals	Initiatives
<b>Energy</b>	<b>Reduce cost and gain efficiency</b> scheduling energy to meet provincial demand	<ul style="list-style-type: none"> <li>• Single Schedule System</li> <li>• Day-Ahead Market</li> <li>• Enhanced Real-Time Unit Commitment</li> </ul>
<b>Capacity</b>	<b>Reduce cost</b> of procuring incremental resources alongside contracted/regulated assets	<ul style="list-style-type: none"> <li>• Capacity Trade</li> <li>• Incremental Capacity Auction</li> </ul>
<b>Operability</b>	<b>Increase flexibility</b> to reliably and cost-effectively integrate renewable resources	<ul style="list-style-type: none"> <li>• More Frequent Intertie Scheduling</li> <li>• Investigate other opportunities</li> </ul>

## II. Background

### Capacity Procurement: Ontario's Experience

In the last 15 years since market opening, Ontario has relied on a combination of centralized procurement, long-term contracting and regulation to meet both system adequacy needs and supply mix policy goals. This approach has been effective at addressing supply needs while also creating a vastly cleaner and lower carbon-emitting electricity system. However, the historical approach did not always ensure that capacity was procured most cost effectively, that excess capacity was not procured, and that opportunities existed for innovative and emerging technologies.

### Future Needs

While Ontario currently is in a robust supply situation, it is important to prepare for emerging capacity needs in the future. Nuclear refurbishment decisions and timelines will impact the timing and nature of when future capacity needs will arise. Similarly, as indicated in the 2016 Ontario Planning Outlook, while demand is expected to remain relatively flat, there are scenarios with significantly higher levels of demand driven by different levels of electrification associated with policy choices on climate change. At the same time, the sector is seeing the growth of new emerging technologies and innovative participation models which in a short time may fundamentally alter the traditional paradigms under which electricity is produced and consumed.

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Faced with this uncertainty, Ontario is looking to develop a competitive and stable mechanism to secure incremental capacity<sup>1</sup> to meet system needs in a manner that:

- Provides flexibility to adapt to changing system conditions and new technological innovation;
- Provides a stable and consistent price signal for the value of capacity;
- Enables competition between various technology types

### Capacity Auctions in Other Jurisdictions

A number of jurisdictions in North America and Europe rely on capacity auctions as a market mechanism to meet resource adequacy needs. Effectively-designed Capacity Auctions have been successful in attracting a combination of low cost resources to meet system needs. As noted in the Market Renewal Benefits Case, “Capacity markets [in other jurisdictions] have created a level playing field that enables competition among new and existing generators, incumbents and new entrants, internal supply and imports, traditional and new types of technology, generation and demand-side resources, and centralized and distributed resources.”<sup>2</sup>

### Ontario Experience: DR Auction

Ontario has successfully transitioned the manner in which Demand Response (DR) resources are procured. After a decade of procuring DR through contract mechanisms, the IESO held its first Demand Response Auction in 2015. Now in its second year, the Demand Response Auction has secured new DR capacity at lower cost, while also attracting new participants, resulting in increased participation and competition in the sector.

## **III. Interested Parties**

The IESO encourages all interested parties, or their representatives, with an interest in these matters to participate in this engagement.

Early in 2017, the IESO held a number of education sessions on the key initiatives for Market Renewal. A recorded session on Capacity Markets can be found [here](#).

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<sup>1</sup> The auction design will seek to secure incremental capacity to meet resource adequacy needs beyond what has already been secured for the system through IESO and OEFC generation contracts or through rate regulation.

<sup>2</sup> <http://www.ieso.ca/-/media/files/ieso/document-library/engage/me/benefits-case-assessment-market-renewal-project-clean-20170420.pdf?la=en> , p.65

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## IV. Approach

The goal of this engagement is to work collaboratively with stakeholders in the design and development of an Incremental Capacity Auction. This engagement will be informed by the overall objective for the Market Renewal Program which is *to enable a more efficient, stable marketplace with competitive and transparent mechanisms that meets system and participant needs at lowest cost*. In achieving this objective, Market Renewal will be guided by the following agreed-upon principles:<sup>3</sup>

- Efficiency
- Competitive
- Implementability
- Certainty
- Transparency.

The ICA engagement will proceed in a series of phases with stakeholders.

### Phase I: Intro and Design Element Fundamentals

The design, development and implementation of an Incremental Capacity Auction will be an ambitious undertaking and will require discussions with stakeholders on a wide range of issues; some very broad and impactful, others more particular or affecting a small subset of participants. The first phase of the engagement will consist of multiple sessions to review and develop a comprehensive list of design elements organized by issue area. During Phase I, the IESO will work with stakeholders to develop the particular design goals and considerations for an incremental capacity auction. These goals and considerations will be used as the framework for the evaluation of design options.

### Phase II: Options and Preliminary Decisions

In the second phase of the engagement, the IESO will review and discuss the relevant options applicable to the design elements. During these sessions, the IESO's aim will be to ensure that stakeholders understand the range of options available along with some of the considerations and trade-offs associated with each. Where and when possible, preliminary decisions will be made based upon feedback from the SE and the MRWG (if an issue was escalated for further discussion).

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<sup>3</sup> <http://www.ieso.ca/-/media/files/ieso/document-library/engage/me/me-20170412-presentation.pdf?la=en> slides 15-16

### Phase III: Final Design Decisions and Publish HLD

After reviewing and discussing all of the options, the IESO will work with stakeholders to arrive at final decisions for the design elements. The goal of this phase will be to develop a coherent high-level design that is consistent with stated objectives.

#### Note on the Feedback Process

Given the scope and breadth of issues, the IESO is proposing a slightly altered feedback process than is typically used in engagement initiatives. In past stakeholder engagements, the IESO would typically respond to feedback in the meeting immediately following. In this engagement, the process will allow for stakeholders to provide comments and feedback throughout the engagement as design elements continue to be introduced and issues are revisited and refined while not making introduction of one element contingent on the completion of another. This is intended to allow the design discussion to move forward within a reasonable timeline. This process will be outlined in further detail at the first stakeholder session.

#### **V. Engagement Schedule**

<b>Engagement Schedule</b>	
<b>Activity</b>	<b>Expected Date</b>
Post and communicate draft Engagement Plan	May 4, 2017
PHASE I	
Stakeholder Meeting –Intro to Engagement, High Level Overview of Design Elements and Scope	May 18, 2017
Feedback due	June, 15 2017
Stakeholder Meeting –ICA Fundamentals and Concepts	June 15, 2017
Feedback due	July 13, 2017
Stakeholder Meeting –ICA Fundamentals and Concepts	July 20, 2017
Feedback due	August 17, 2017
PHASE II	
PHASE III	
	Q3 2017 to Q1 2018
	Q2 2018

#### **VII. Contact**

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**This Stakeholder Engagement Plan may be subject to review and update as the process evolves.**

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May, 2017  
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