

Incremental Capacity Auction (ICA) – Stakeholder Feedback Form

Stakeholder Options Phase Meeting #1: August 16th, 2017

Feedback request by: 2017/09/13	Feedback provided by:
Date Submitted: 2017/09/13	Company Name: HQEM _____
	Contact Name: Frederic Belanger _____
	Phone: _____
	Email: _____

By submitting this Stakeholder Feedback Form, the company or individual identified above, as applicable, consents to the disclosure by the IESO of this Stakeholder Feedback Form and its contents, in whole or in part, in stakeholder engagement meetings, on the IESO website or otherwise.

The IESO held the first meeting of the ‘Options Phase’ of the Incremental Capacity Auction engagement on August 16th, 2017. The meeting covered the design elements related to establishing the demand curve (i.e. Target Capacity, Net CONE, Min/Max Capacity Limits, Maximum Auction Clearing Price, and Slope of Demand Curve).

The presentation can be [found here](#).

In order to maximize the effectiveness of this stakeholder engagement process, the IESO requests that stakeholders use the template below to provide feedback on content presented as follows:

- Provide responses to the questions posed
- For options presented, indicate your preference along with applicable rationale/supporting arguments
- Identify any aspects that you believe require further elaboration or discussion

Feedback received may be shared by the IESO on its website, at future stakeholder engagement meetings, or otherwise and will help inform further discussions at future stakeholder engagement meetings.

Please send this form with your feedback to engagement@ieso.ca

ICA Goals & Objectives	Stakeholder Feedback
<p>Draft Goal: <i>Slides 6-14</i></p> <p>Do stakeholders agree with the following proposed Goal statement for the ICA Project?</p> <p><i>The Incremental Capacity Auction Project will develop and implement an enduring market-based capacity procurement mechanism that will, alongside contracted and rate regulated resources, ensure Ontario’s resource adequacy needs are met cost effectively within the broader policy framework.</i></p>	<p>No comments – it seems in line with the market renewal goal.</p>
<p>Draft Objectives: <i>Slides 6-14</i></p> <p>Do stakeholders agree with the following proposed Objectives for the ICA Project?</p> <ol style="list-style-type: none"> 1. Meet incremental resource adequacy needs 2. Secure incremental capacity at the lowest cost in the long run 	<p>Securing capacity at the lowest cost is an important goal of any capacity market construct; however, it should be kept in mind that the underlying product needs to provide a sufficient level of reliability benefits (firmness) to the Ontario system.</p>
<p>Draft Strategic Outcomes: <i>Slides 6-14</i></p> <p>Do stakeholders agree that the objectives can be achieved if, within the broader policy framework?</p> <ul style="list-style-type: none"> • A transparent market price is established for the value of capacity in each zone • Incremental capacity is secured in the locations and timeframes that align with resource adequacy needs • Diverse resource types are enabled to compete to meet resource adequacy needs • Auction design evolves over time to address sector changes and improve auction outcomes • Risk is appropriately allocated 	<p>We agree with the proposal. We would like to underscore the importance to allow the required evolution of the auction design to be discussed with stakeholders before implementation and to have a flexible policy framework which will optimize the availability of the capacity on a seasonal basis.</p>

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Design Element	Features	Questions for Stakeholders	Stakeholder Feedback
Target Capacity	Hold-Back <i>Slides27-32</i>	Please identify preferred option and provide supporting rationale. OPTIONS: 1. With “Hold-back” 2. Without “Hold-back” QUESTION: What other considerations could inform this decision?	Our position is to go on without “Hold-back”. We believe that this is more coherent with the approach implemented in other markets. Waiting on rebalancing auctions to secure the full 100% of the target capacity could jeopardize the reliability of the system.
	Transparency and certainty <i>Slides33-36</i>	QUESTION: What information would stakeholders/participants require in order to understand how the reserve requirement, and subsequently the Target Capacity, is determined by the IESO? <ul style="list-style-type: none"> • To ensure IESO communicate relevant information, it would help to understand the intended use of the requested information 	These information would be required : <ul style="list-style-type: none"> • Zonal consideration • List of withdrawals of assets which can provide capacity • List of all the installation and their amount of capacity which they can offer (example: the Gold Book in NYISO) • Capacity available per intertie • Seasonal forecast of capacity needs • Results of modelization regarding forward period length • Scenarios depending on the type of fuel used to generate capacity • Weather scenarios • Demand Curve model • Information related to reliability requirements
	Timelines <i>Slides37-39</i>	QUESTION: What activities do participants envision typically occurring after the Target Capacity has been published (e.g., arranging financing, vendors, project development work, site selection, permitting, etc.)?	We don’t have any comments on this subject

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		<ul style="list-style-type: none"> How long, on average, would these activities take? <p>QUESTION: How far beyond the commitment period would stakeholders desire that “Target Capacity” <u>projections</u> be published?</p>	
Net CONE	Reference Technology <i>Slides46-49</i>	QUESTION: What considerations should drive the selection of the reference technology in Ontario?	We would support adopting a methodology comparable to what is already done in other jurisdictions and have the highest reliability features.
	Gross CONE <i>Slides50-52</i>	QUESTION: Are there Ontario-specific considerations that should be reflected when establishing the methodology for estimating Gross CONE?	No comments
	Energy & Ancillary Services Offset <i>Slides53-55</i>	QUESTION: What considerations do stakeholders feel is important to consider when defining the methodology for forecasting the E&AS Offset?	No comments
	Stakeholder Involvement <i>Slides56-59</i>	<p>QUESTION: What expectations do participants have for their level of involvement in setting the inputs that will feed into the Net CONE study?</p> <p>QUESTION: To what extent should the outputs from the Net CONE study be open to debate or revisiting?</p>	<p><u>First question:</u> participants should be allowed to provide comments on the inputs required to determine the Net CONE.</p> <p><u>Second question:</u> We support adopting a methodology comparable to what is already done in other jurisdictions, such as PJM, NYISO and ISO-NE. In these markets, Participants are allowed the rights to challenge/appeal the outcome of the Net CONE study.</p>

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	Frequency of Revision <i>Slides60-64</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Reset performed > 4 year cycle 2. Reset performed every 3-4 years 3. Reset performed < 3 year cycle QUESTION: What other considerations could inform the decision of how frequently the Net CONE components need to be updated?	Since the ICA would be fairly new, we would suggest a shorter frequency of revision term of the Net CONE components. These estimates could be updated on a three year or less cycle, since we would require a higher level of precision in the estimates. After a few auctions and if we consider the model robust enough, resetting the estimates on a longer period basis would be feasible.
	Zonal Net CONE <i>Slides65-69</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Single Net CONE for Ontario 2. Use zonal Net CONE estimates QUESTION: What other considerations could inform the decision of whether to estimate zonal Net CONE values?	In order to reflect the needs and the different components of each zone (labor, development costs, siting), we would support a zonal Net CONE methodology. A single Net Cone would help reducing the administrative burden, but in the end, it wouldn't be as efficient as it wouldn't reflect regional or zonal considerations.
Min/Max Capacity Limit	Methodology for determining limits <i>Slides78-82</i>	Please identify preferred option and provide supporting rationale. OPTIONS: <ol style="list-style-type: none"> 1. Set as a percentage of Target requirement 2. Based on specified LOLE 3. Based on low/high demand outlooks QUESTION: Are there any other considerations that should be taken into account when establishing the mechanism for setting minimum/maximum limits for the base auction?	On this option, we would support the option based on specified LOLE, for the minimum capacity limit. As for the maximum, we would support a percentage based on the reliability requirements. The LOLE is a common reliability reference in the industry and have proven to be an adequate reliability standard. As mentioned, it is reflective of changes in the supply mix as it evolves from year-to-year.

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Maximum Auction Clearing Price (MACP)	Methodology for calculating MACP <i>Slides90-94</i>	Please identify preferred option and provide supporting rationale. OPTIONS: 1. Function of Net CONE 2. Function of Gross CONE QUESTION: What other considerations could inform the decision of how to establish the MACP? – Gross CONE vs. Net CONE – Magnitude of multiplier	The option we would prefer would be the determination of the MACP as a function of the Net CONE. Using the Net CONE will better reflect the fact that a resource will be earning revenues from energy and from ancillary services. This is in line with other jurisdiction as PJM and ISO-NE. As for the magnitude of the multiplier, we would only comment that this value should be in line with what is done in other jurisdictions, as a matter of uniformity.
	Price Floor for MACP <i>Slides95-99</i>	Please identify preferred option and provide supporting rationale. OPTIONS: 1. With Price Floor 2. Without Price Floor QUESTION: What other considerations could inform the decision of whether a price floor for MACP is required?	Using a price floor would prevent the demand curve from collapsing, which would reduce price volatility. Usually, jurisdiction using the Net CONE as the MACP would also include a floor price to this maximum. This would be linked with our previous comment. Using the Gross CONE as the floor is reasonable.
Slope of Demand Curve	Shape of demand curve <i>Slides107-114</i>	Please identify preferred option and provide supporting rationale. OPTIONS: 1. Steeper Slope 2. Flatter Slope 3. Convex 4. Concave QUESTION: What aspects of each demand curve shape do stakeholder believe Ontario should adopt? Why?	Before identifying their preferred option, participants will need more information about the auction design, as example, the forward period and the commitment period.

General Comments/Feedback:

These comments from HQEM are provided at the request of the IESO to contribute to the overall effort of developing and deploying a capacity market in Ontario. Since many other features of this market have yet to be determined, HQEM's comments could evolve over time to align with the definitive components of the capacity construct. HQEM will be particularly interested in the treatment of imports, and how these can reliably contribute to the Ontario capacity requirements to achieve the most efficient outcome.