

January 11, 2021

Ms. Susanna Zagar  
Chief Executive Officer  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

## **RE: Market Surveillance Panel Monitoring Report 33**

Dear Ms. Zagar,

I am writing in response to your letter of December 10, 2020 requesting that I advise you of: a) the steps that the Independent Electricity System Operator (IESO) plans to take in response to the recommendations made in the Market Surveillance Panel (“MSP” or “Panel”) Monitoring Report on the IESO-Administered Electricity Markets for the period from May 1, 2018 to October 31, 2018, and the timelines for completion of those steps; and b) in the IESO’s view, whether any actions or market rule amendments should be taken or initiated in addition to those reflected in the MSP recommendations.

The MSP’s report included nine recommendations to the IESO on three topics, which are addressed below.

### Real-Time Generation Cost Guarantee (RT-GCG) Program

#### *Recommendation 2-1*

*The IESO should eliminate the payment for start-up costs for second and subsequent RT-GCG runs in a day. Alternatively, when a generation unit has participated in the RT-GCG program once during a day, the IESO should consider ways to have the generation unit compensated on the basis of the lesser of the second and subsequent submitted start-up costs or the estimated cost of keeping the generation unit online between RT-GCG runs.*

#### **IESO Response**

The IESO agrees that two-shifting generation facilities could be inefficient in certain circumstances. However, eliminating all second start guarantees could deter efficient starts from coming to market. Multi-hour optimization of three-part offers is necessary to verify the efficiency of second starts. As part of the Market Renewal Program (MRP), the IESO will be introducing multi-hour optimization of three-part offers (energy, start up, and speed-no-load)

across the day-ahead, pre-dispatch, and real-time timeframes. Multi-hour optimization of three-part offers will only schedule generation facilities for two starts in the same day when it is economically efficient to do so.

The IESO does not intend to take any additional actions to change the current RT-GCG program design in advance of MRP. The IESO will continue to conduct audits associated with the RT-GCG program (refer to Recommendation 2-2 below).

#### *Recommendation 2-2*

*The IESO should conduct an audit of RT-GCG cost submissions in situations when a generation unit has a second RT-GCG run within three hours of its first RT-GCG run and the submitted costs of the second run are equal to or higher than the submitted costs of the first run.*

#### **IESO Response**

The IESO routinely audits the RT-GCG program and has been carrying out such audits since 2011. Consistent with the MSP's recommendation, the IESO's audits consider submitted costs and the circumstances of each RT-GCG start, including when a generation facility has a second start within three hours of its first start.

#### Simultaneous Activation Reserve (SAR)

#### *Recommendation 2-3*

*The IESO should treat SAR activations in much the same way as it treats emergency imports; namely, by adding demand back in to the unconstrained schedule.*

#### **IESO Response**

The IESO agrees that the MSP's recommendation would provide more intuitive and informative pricing signals for dispatchable resources. However, the IESO is evaluating the materiality of market efficiency benefits associated with this recommendation as well as consistency with the treatment of other control actions and potential implementation impacts to other initiatives. The IESO will provide an update to the MSP by the end of Q1 2021.

#### Capacity Planning and Need Assessment

#### *Recommendation 3-1*

*The IESO should produce a report that probabilistically assesses the level of economic (i.e. non-firm) imports that would be appropriate to assume in their various resource adequacy studies for each year in the planning timeframe, with stakeholder input, using the Northeast Power Coordinating Council Review of Interconnection Assistance Reliability Benefits study as a reference.*

## **IESO Response**

The IESO agrees with the MSP on the need to assess the level of non-firm imports that would be appropriate to assume in resource adequacy studies. The IESO has initiated the Reliability Standards Review stakeholder engagement to examine planning assumptions related to resource adequacy.<sup>1</sup> Through this engagement, the IESO has proposed a methodology to determine an appropriate assumption for non-firm imports which takes into account the Northeast Power Coordinating Council Review of Interconnection Assistance Reliability Benefits study. The stakeholder engagement is expected to conclude in Q1 2021.

### *Recommendation 3-2*

*The IESO should better align the assumptions used in planning documents on an ongoing basis or explain in detail the reason for remaining differences, with quantities. This should address, at a minimum, differences in economic import assumptions and different weather scenarios that lead to different capacity need outcomes.*

## **IESO Response**

The IESO agrees with the MSP on the need to align assumptions used in planning documents. The IESO is currently reviewing the differences in assumptions across planning documents, including non-firm imports and forecasted weather scenarios, and undertaking to align those assumptions through the IESO's Resource Adequacy stakeholder engagement.<sup>2</sup> Further, the IESO also plans to align assumptions for embedded generation across planning documents.

### *Recommendation 3-3*

*The IESO should examine and report on potential improvements to its communications with stakeholders regarding the process(es) used to assess the need for and procure resources to meet future capacity needs. The IESO should also provide greater clarity regarding the documents used to inform those procurements and how any auction or procurement targets are set. In particular:*

- *the IESO should publish the analysis and methodology for the Reliability Assurance concept, which appears to be the basis for procuring capacity for the Capacity Auction scheduled for the winter of 2020/21; and*
- *the IESO should explain the purpose of the Reliability Outlook, including a clear indication of which sections of that report may be used for outage planning, which sections (if any) may be used to inform procurements, and which sections have been included for informational purposes only.*

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<sup>1</sup> For more information on the Reliability Standards Review engagement, please see: <https://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/Reliability-Standards-Review>

<sup>2</sup> For more information on the Resource Adequacy engagement, please see: <https://www.ieso.ca/Sector-Participants/Engagement-Initiatives/Engagements/Resource-Adequacy-Engagement>

## **IESO Response**

The IESO agrees with the MSP on the need for transparent and clear communications for planning and procurement processes. Through the Resource Adequacy engagement, the IESO is working with stakeholders to develop a resource adequacy framework that will specify which processes and documents will be used to identify system needs, the methodologies used to translate those needs into procurement targets, and which processes will be used to procure resources.

### *Recommendation 3-4*

*The IESO should periodically make available clear descriptions of the range of potential resources that may need to be procured, including the volume (MW), timelines, any required characteristics other than capacity (e.g. energy, ramp, etc.) and expected procurement mechanism (e.g. through capacity auctions, and/or alternative mechanisms) as part of its communication of future capacity needs in reports such as the Annual Planning Outlook.*

## **IESO Response**

The IESO agrees with the MSP on the need to make available clear descriptions of the range of resources that may need to be procured. Through the Resource Adequacy engagement, the IESO is working with stakeholders to develop a resource adequacy framework that will identify system needs (e.g. energy, capacity, flexibility etc.), and timelines for when those needs are expected to materialize. The framework will also identify the mechanisms to be used to procure resources to meet those needs.

### *Recommendation 3-5*

*The IESO should signal its confidence in different planning assumptions by publishing the uncertainty values associated with relevant assumptions and elements used to calculate the capacity need, including at a minimum a range of economic imports and a range of possible demand forecasts based on underlying economic drivers.*

## **IESO Response**

Through the Resource Adequacy engagement, the IESO will engage stakeholders on changes to power system planning information and documents, including communicating uncertainty associated with relevant assumptions used to calculate capacity need.

Further, through the Reliability Standards Review engagement, the IESO has proposed a methodology to determine an appropriate assumption for non-firm imports. This methodology accounts for uncertainty in the availability of these resources by considering a range of non-firm imports.

In order to address uncertainties impacting electricity demand, the IESO has published two demand scenarios within the 2020 Annual Planning Outlook (APO). The assumptions behind each scenario are explained in the APO as well as supported via the methodology documents and data tables which are released in tandem with the APO.

*Recommendation 3-6*

*The IESO should examine and report on potential improvements to its stakeholder engagements regarding the methods and assumptions used to develop capacity needs. Specific consideration should be given to a periodic streamlined process to review the case for procuring existing or new resources that involves stakeholders and is overseen by an objective third party.*

**IESO Response**

The IESO is actively engaging stakeholders on capacity needs through the Reliability Standards Review and Resource Adequacy engagements. These engagements will support greater transparency regarding the methods and assumptions used to develop capacity needs and procurement mechanisms.

The IESO is currently reviewing the MSP's recommendation regarding a periodic streamlined process for reviewing procurement targets overseen by a third party.

Ontario Energy Board (OEB) Question

With regard to the OEB's question on whether any actions or market rule amendments should be taken or initiated in addition to those reflected in the MSP's recommendations, the IESO has not at this time identified any additional actions or market rule amendments that should be taken or initiated related to the recommendations.

Should you have any additional questions on these matters, please do not hesitate to contact me at (416) 506-2832 or by email at [terry.young@ieso.ca](mailto:terry.young@ieso.ca).

Yours truly,



Terry Young  
Interim President & CEO

CC: Glenn Leslie, Chair, Market Surveillance Panel