

Feedback Form

Capacity Auction Enhancements – August 20, 2026

Feedback Provided by:

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Title: Comment on IESO Capacity Auction Enhancements

Organization: CAFES

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Date: 2026 09 03

Following the August 20, 2026 Capacity Auction Enhancements webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the items discussed.

The referenced presentation and supporting materials can be found under the August 20, 2026, entry on the [Capacity Auction Enhancements](#) webpage.

To promote transparency, feedback submitted will be posted on the Capacity Auction Enhancements page unless otherwise requested by the sender. If you wish to provide confidential feedback, please mark “Yes” below:

- ☐ Yes – there is confidential information, do not post
- ☒ No – comfortable to publish to the IESO web page

Please provide feedback by September 3, 2026, to engagement@ieso.ca. Please use subject: *Feedback: Capacity Auction Enhancements.*

Expanded One-Month Capacity Test Window

Topic	Feedback
Do you have any feedback regarding the proposal that all resource types will complete a capacity test within a one-month testing window at the start of each obligation period?	
Does this proposed enhancement offer greater flexibility to manage grid and resource unavailability (i.e., outages) and scheduling when attempting to complete the capacity test?	
What other details do stakeholders require to support this proposal?	

Expand Participation

Topic	Feedback
Do you have any feedback regarding the proposal to enable distribution-connected dispatchable generator/storage resources to participate in the Capacity Auction?	See comment below

Improving Hourly Demand Response (HDR) Performance

Topic	Feedback
Do you have any feedback regarding the goals of the Improve HDR Performance enhancement as outlined on slide 28 of the presentation?	
What are the main issues that prevent an HDR resource from delivering to their obligation during non-test activations?	
What are the main issues that prevent an HDR resource from submitting and updating accurate bids and delivering to dispatch schedules during non-test activations?	
How could existing market signals (pre-dispatch prices, adequacy reports, etc.) and notifications (standby and activation notices) be modified to	

better prepare HDRs to respond to dispatch instructions?	
Would a cap on the number of activations over a specific timeframe (monthly, seasonal, etc.) drive better performance and encourage more demand response participation?	
Do you have any other suggestions that could give HDR resources a greater ability to prepare and respond to an activation?	

Review of Resource-Specific UCAP Methodologies

Topic	Feedback
Do you have any feedback regarding the review of capacity qualification methodologies for dispatchable loads?	
Do you have any feedback regarding the review of capacity qualification methodologies for generator-backed import (GBI) resources?	

2027 Prioritized Enhancements

Topic	Feedback
Do you have any other feedback regarding the prioritized enhancements for 2027 and/or engagement timelines presented today?	

General Comments/Feedback

CAFES supports enabling non-emitting generation and storage resources to participate in the Capacity Auction, and we appreciate the IESO seeking feedback on this proposal. We wish to raise a concern regarding the potential to define "embedded generator" broadly enough to allow distribution-connected emitting generators to qualify as capacity resources.

Without reasonable limits, this proposal could encourage existing and new combustion generators on the distribution system to be built, and to run far more often than they do today. The result would be avoidable health impacts and carbon emissions in the communities where these units sit or would be installed.

The sections below set out two aspects of this concern, followed by our recommendation.

Air Quality

Unlike transmission-connected generation, distribution-connected generation tends to be located close to where people live and work, which magnifies the impact of any air pollution it produces.

Natural gas, diesel, and other fuels emit air pollutants that are hazardous to human health when burned. Fine and ultra-fine particulate matter and nitrogen oxides (NOx) from natural gas combustion are linked to premature death, heart attacks, aggravated asthma, decreased lung function, and increased respiratory illness.[1] Diesel exhaust has also been classified as carcinogenic to humans.[2]

Ontario's existing permitting and oversight framework for distribution-scale combustion generators is built around an assumption of rare, emergency-only operation rather than routine commercial dispatch. As a result, it is poorly equipped to address the cumulative air quality impacts of these resources running regularly:

- Fossil-fuel electric power generation facilities under 25 MW are deemed by regulation not to fall within the industry classification used to trigger Ontario's strictest local air quality standards, so many distribution-scale generators can avoid the standards that apply to larger power plants entirely.[3]
- The province's NOx limits are looser for smaller units: combustion turbines under 4 MW used for electricity generation are allowed 42–60 parts per million of NOx, compared with 25–34 ppm for units in the 4–25 MW class, roughly double.[4]
- Standby power systems (generator units up to 700 kW) can register through a simplified registry process and are fully exempt from Ontario's air discharge standards whenever the equipment is "used for its intended purpose." [5] If that purpose shifts from emergency backup to bidding into a commercial capacity market, the assumption the exemption was built on no longer holds.

Because the auction could bring many smaller, individually exempt units online at the same time across a distribution feeder or a single community, impacts should be assessed both cumulatively and unit by unit. Ontario's existing cumulative-effects assessment framework for air approvals is narrowly scoped and does not extend to NOx or particulate matter from distribution-connected combustion generators, leaving the cumulative air-quality impacts of many small units entirely unaddressed.

Carbon Emissions

Fossil-fuel combustion is already making the Ontario grid dirtier, not cleaner. The IESO's own planning work anticipates near-term grid emissions rising as gas generation meets growing demand and covers nuclear refurbishment.[6] Independent analysis of the IESO's planning data by the Ontario Clean Air Alliance found that greenhouse gas pollution from Ontario's gas plants had already roughly tripled by 2023 relative to 2017.[7] Creating a new, government-backed capacity-payment revenue stream for distribution-connected combustion generation would add another driver pushing in the same direction, at exactly the moment Ontario's own numbers show gas-plant emissions climbing.

There is also a risk of stacking regulatory blind spots. Canada's federal Clean Electricity Regulations, the primary federal tool for driving the grid to net zero, apply only to fossil-fuel generating units with a capacity of at least 25 MW.[8] This is the same threshold Ontario uses to decide which fossil

generation facilities fall outside its strictest local air quality standards.[3] Distribution-connected combustion resources below this size would sit outside both the leading federal greenhouse gas regulation and the leading provincial air-quality regulation.

Creating a dedicated Capacity Auction revenue stream without an emissions-based eligibility limit would therefore concentrate new investment and new operating hours precisely in the segment of the fleet that neither level of government currently regulates directly.

Recommendation

To prevent these impacts, CAFES recommends that the IESO tailor the definitions of "embedded generator" to exclude emitting generation. Allowing emitting generation on the distribution grid to participate in the Capacity Auction would be unwise given its impacts on health and the climate.

CAFES agrees with the goal of unlocking value streams for distribution-connected non-emitting resources (e.g. solar, batteries, and others). Enabling resources connected close to load to contribute to the grid can help meet rising demand cost-effectively and improve reliability and resilience for consumers. We simply ask that the definitional work the IESO is undertaking to enable that participation draw a clear, durable line around emissions.

References

- [1] U.S. Environmental Protection Agency, "Health and Environmental Effects of Particulate Matter (PM)," epa.gov. <https://www.epa.gov/pm-pollution/health-and-environmental-effects-particulate-matter-pm>
- [2] International Agency for Research on Cancer / World Health Organization, Press Release No. 213, "IARC: Diesel Engine Exhaust Carcinogenic" (June 12, 2012), iarc.who.int. https://www.iarc.who.int/wp-content/uploads/2018/07/pr213_E.pdf
- [3] Ontario, O. Reg. 419/05: Air Pollution – Local Air Quality, s. 1(2)(a) (deeming fossil-fuel facilities under 25 MW outside the industry classification used to trigger the Regulation's strictest standards), ontario.ca. <https://www.ontario.ca/laws/regulation/050419>
- [4] Ontario Ministry of the Environment, Conservation and Parks, "Environmental Activity and Sector Registry: Limits and Other Requirements for Activities – Air Emissions," Table 4 (in-stack NO_x limits for combustion turbines by size class), ontario.ca.
- [5] Ontario, O. Reg. 419/05: Air Pollution – Local Air Quality, s. 20.4 (standby power sources exempt from air discharge standards when operated for their intended purpose; only testing/maintenance capped, at 60 hours per year), ontario.ca. <https://www.ontario.ca/laws/regulation/050419>
- [6] IESO, 2025 Annual Planning Outlook – Capacity Expansion Scenario, Costs and Emissions Module (near-term grid emissions expected to rise as gas generation meets growing demand and covers nuclear refurbishment), ieso.ca.
- [7] Ontario Clean Air Alliance, "Going in the Wrong Direction" (April 2024), analyzing the IESO's 2024 Annual Planning Outlook (GHG pollution from Ontario's gas plants roughly tripled by 2023 versus 2017, and forecast at 570–580% above 2017 levels by 2030), cleanairalliance.org.

[8] Government of Canada, Clean Electricity Regulations, SOR/2024-263, s. 5 (regulations apply to fossil-fuel generating units with a capacity of at least 25 MW), laws-lois.justice.gc.ca. <https://laws-lois.justice.gc.ca/eng/regulations/SOR-2024-263/>