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Capacity Auction Design Memo 1.0 Commitment Management Options 2025

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Objective

The intent of this memo is to define the four design elements included in the commitment management options enhancement package that will aim to be implemented in advance of the 2025 Capacity Auction. This package seeks to improve participant management of capacity obligations and reduce instances of unfulfilled commitments by increasing bi-lateral transfer opportunities as well as applying commensurate charges when commitments cannot be fulfilled. The Capacity Auction team intends to engage with stakeholders on additional commitment management enhancements ahead of the 2026 and 2027 capacity auctions.

Background

The expectation is that capacity auction participants that obtain a capacity obligation will fulfill their commitment. When a capacity market participant (CMP) does not fulfill its obligations, the following impacts can result:

- Reduced capacity the IESO can call upon to support operational and reliability needs
- Potential need for interim short-term adequacy assessments based on reduced capacity availability
- A loss of capacity that a prospective participant could have been awarded in the auction
- Distortion of market signals - clearing prices that are not reflective of the true cost of the capacity
- Administrative burden of having to process buy-outs, forfeitures, etc.

Through past experiences and internal investigation, the capacity auction team has observed a trend of unfulfilled obligations year-over-year.

Items 1 - 3 are design changes and item 4 will formalize an existing process that will aim to minimize unfulfilled commitments by increasing bi-lateral transfer opportunities as well as applying commensurate charges when commitments cannot be fulfilled**.**

Item #1 – Physical-to-Virtual Obligation Transfers

Existing Design

Under the existing design, when initiating a transfer request, a participant is limited to transferring capacity to a capacity auction resource that is the same resource type as the transferring obligation (ie. either physical or virtual). For greater clarity, a physical resource can transfer capacity to another physical resource, and a virtual resource can transfer capacity to another virtual resource, only.

Post-Implementation Design

Transfers will be enabled between both physical resource types (including generation, storage, import, dispatchable load and physical hourly demand response) and virtual resource types, while still respecting all limits (import, zonal and virtual limits). Note: transfers of capacity obligations may only occur between resources that have completed the annual capacity qualification process. In addition, the transferee must have surplus qualified capacity available to accept the transfer.

This change will be achieved by removing criteria found in Ch. 7, 18.9.1.3 of the market rules that states that *the capacity obligation transfer shall consist of the same attributes (e.g., physical or virtual), as the capacity transferor's capacity obligation*, as well as by modifying the transfer tool in Online IESO to allow transfers to occur between the different physical and virtual capacity auction resource types.

In addition to these changes, updates will be made to training materials (including the Online IESO Step-by-Step guide) to capture the modified process, and a review of market manual 12 will be conducted to see if any additional updates may be required (specifically under section 8).

Item #2 – Review of Buy-out Charge

Existing Design

Under the existing design, the buy-out charge is calculated based on 50% of the seasonal obligation period's clearing price multiplied by one minus the non-performance factor for each month. Assuming a buy-out for the entire obligation period, this equates to a buy-out charge of approximately 30% of the total availability payments which would be received during the obligation period, as demonstrated in the following example:

Example

For the purpose of the example calculation, assume a 1MW obligation with a clearing price of $367.41/MW-day. 120 business days are applied for the obligation period, divided equally across all six months.

Availability Payment

Obligation	Clearing Price	Days	Availability Payment
1 MW	$ 367.41	120	$ 44,089.20

Existing buy-out charge:

$$CABOC_k^m = 50\% \times \sum_{}^{H} CBOC_k^m \times CACP_h^z \times (1 - CNPF_{tm})$$

Month	Percentage	Buy-out Amount	Clearing Price	NPF	Days	Buy-out Charge
May	50%	1 MW	$367.41	1	20	$ -
June	50%	1 MW	$367.41	1.5	20	-$1,837.05
July	50%	1 MW	$367.41	2	20	-$3,674.10
August	50%	1 MW	$367.41	2	20	-$3,674.10
September	50%	1 MW	$367.41	2	20	-$3,674.10
October	50%	1 MW	$367.41	1	20	$ -
					Total Buy-out:	-$12,859.35

Post-Implementation Design

The way in which the buy-out charge is calculated will be amended to remove the "1 -" from the non-performance factor (1 - CNPFtm) segment of the formula. The percentage value will also be modified from 50% to 33%. Lastly, the charge will apply (-1) to the equation to make the overall charge negative.

Assuming a buy-out for the entire obligation period, this will result in the value of the charge being equal to approximately 50% of the availability payments. The new charge calculation is demonstrated in the following example:

Revised buy-out charge:

$$CABOC_k^m = (-1) \times 33\% \times \sum_{}^{H} CBOC_k^m \times CACP_h^z \times CNPF_{tm}$$

Month	Percentage	Buy-out Amount	Clearing Price	NPF	Days	Buy-out Charge
May	-33%	1 MW	$367.41	1	20	-$ 2,422.86
June	-33%	1 MW	$367.41	1.5	20	-$ 3,634.29
July	-33%	1 MW	$367.41	2	20	-$ 4,845.72
August	-33%	1 MW	$367.41	2	20	-$ 4,845.72
September	-33%	1 MW	$367.41	2	20	-$ 4,845.72
October	-33%	1 MW	$367.41	1	20	-$ 2,422.86
					Total Buy-out:	-$ 23,017.17

There will be no changes to the current capacity auction prudential requirements as part of this design.

In addition to these changes, updates will be made to commitment period training materials to capture the modified formula, and a review of chapter 9 of the market rules, charge types and equations, market manual 5.5, and market manual 12 (specifically under section 7) will be conducted to see if any additional updates may be required.

Item #3 – Review of Forfeiture Rules

Existing Design

Under the existing design, if a capacity market participant (CMP) has not met the applicable eligibility requirements, including its forward period registration activities, by the start of the obligation period, the IESO will revoke the participants capacity obligation, and they shall forfeit their capacity auction deposit.

Post-Implementation Design

The obligation forfeiture process will be eliminated by revising Chapter 7, Section 18.4.4 of the market rules to require that a participant must buy-out of their obligation should the applicable eligibility requirements not be met prior to the start of the obligation period.

If the participant has not transferred their capacity obligation by the transfer deadline and has not initiated a buy-out effective on the first day of the obligation period, the buy-out process will be automatically applied.

This is to ensure that all instances of unfulfilled commitments are subject to the buy-out charge process. Unfulfilled commitments should be addressed uniformly, irrespective of when or how they occur.

In addition to these changes, updates will be made to the pre-auction and forward period training materials to capture the new process requirements.

Item #4 – New Dispatchable Load Registration

The following item aims to formalize a process and will require clarification to market manual 12, but does not include any changes to existing rules:

A participant intending to transition their existing non-dispatchable load resource into a new dispatchable load (DL) resource prior to the start of the commitment period should add two capacity auction resources to their capacity qualification request. One resource will represent the existing non-dispatchable load/physical hourly demand response (HDR) resource, and one will represent the new DL resource. For physical HDR resources that have previously participated in a capacity auction, any applicable performance adjustment factors will be applied to both resources during capacity qualification.

In addition, only a single deposit will be required for the two capacity auction resources in question.

During the auction, the participant will be limited to offering the existing non-dispatchable load resource only. Should the participant be awarded an obligation, they would proceed with the forward period activities as expected. Once the new dispatchable load resource registration is completed within the applicable timelines (i.e. prior to the transfer deadline), the participant would then transfer the obligation over from the existing physical HDR resource to the new DL resource.

In all cases, participants must consider whether the registration of the new dispatchable load resource will be completed by the transfer deadline, or by the start of the obligation period prior to offering into the auction, and manage the associated risks, as applicable.

In addition to the changes to market manual 12 and Online IESO, updates will be made to the pre-auction and forward period training materials to capture the new process requirements.

Market Rule/Market Manual Impacts

Any change that requires a modification to a market rule or market manual for the above four items will be reflected in the following governing documents:

- Market Rule: Chapter 0.7, Section 18.9.1.3
- Market Rule: Chapter 0.7, Section 18.4.4
- Market Rule: Chapter 0.9, Section 4.13.9
- Charge Types & Equations, 1319
- Market Manual: 0.5.5, Section 3.4.5
- Market Manual: 0.12, Sections 7 & 8

Note: The documents referenced under this section are based on the recently approved Market Renewal Program (MRP) Final Alignment versions of the market rules and market manuals.

Next Steps

For these changes to be in effect for the 2025 Capacity Auction (expected to be held in November 2025), amendments need to be made to the above-noted market rules/market manuals (as applicable). Stakeholders will have an opportunity to review the proposed amendments and provide feedback, per the standard market rule/market manual amendment process, and timing will be communicated via the Capacity Auction Enhancements engagement. Pending stakeholder feedback, the IESO will aim to implement these changes ahead of the 2025 Capacity Auction.

The IESO expects to continue engaging with stakeholders on various other commitment management option proposals ahead of the 2026 and 2027 capacity auctions.