Stakeholder Feedback and IESO Response

Capacity Auction Enhancements

Following the Capacity Auction Enhancements webinar on January 29, 2026, the Independent Electricity System Operator (IESO) invited stakeholders to provide comments and feedback on the materials presented, by February 12, 2026.

The presentation materials and stakeholder feedback submissions have been posted on the IESO Capacity Auction Enhancements engagement webpage. Please reference the material for specific feedback as the information below provides excerpts and/or a summary only.

Proposed HDR Objective Statement

Feedback	IESO Response
HDR Objective Statement Stakeholders generally support the intent of the proposed HDR Objective Statement. Several stakeholders suggested revisions to include specific issues and market observations to guide future enhancements.	The IESO acknowledges and appreciates the suggested revisions to the HDR Objective Statement. However, these suggestions are more appropriately considered as potential outcomes of future design discussions, rather than objectives themselves. The IESO believes that the current HDR Objective Statement is sufficiently broad to encompass the issues and observations raised by stakeholders.

2025 Market Observations

Feedback	IESO Response
HDR Standby Notice Price Trigger Stakeholders expressed concern that the current $200/MWh HDR standby notice price trigger generates too many standby notices that do not reliably correlate with actual activations. This high volume is contributing to participant fatigue and reduces the usefulness of standby notices as an operational signal. Stakeholders requested the IESO to increase or redesign the trigger to better indicate the likelihood of being activated. One stakeholder requested that the IESO provide HDR standby notice data comparing the current year to prior years.	The IESO acknowledges the stakeholder concerns regarding the current $200/MWh standby trigger in the renewed market. The IESO will conduct an assessment in Q3 2026 after collecting a full year of renewed market data, including both summer and winter obligation periods. The results of this assessment will inform the IESO whether an update to the standby trigger is warranted. A summary of the assessment will be presented to stakeholders.
Activation Payment Certainty Stakeholders expressed concerns about lack of clarity regarding whether HDR activations qualify for payment under the market rules. They highlighted confusion due to the rise in economically driven activations and the absence of signals, such as a Conservative Operating State or EEA-1 declarations, making it difficult to determine payment eligibility. Participants requested clearer communication, better differentiation between economic vs. emergency-based activations, and a more transparent interpretation of payment eligibility to reduce operational uncertainty and risk.	The IESO acknowledges stakeholder concerns regarding the uncertainty of payment following economic activation of HDR resources, particularly when activations do not coincide with a Conservative Operating State or an EEA1 Advisory Notice. The IESO issues EEA-1 and Conservative Operating State notices to provide early awareness of tight or potentially stressed system conditions, helping participants prepare in advance. These notices are strictly informational signals and are not intended to serve as criteria for HDR Activation Payments. Under Market Rules, Chapter 7, section 19.4.21, HDR resources are entitled to compensation for activations *"leading up to or during an emergency operating state."* When this condition is met, market

	participants receive a make whole payment equal to the difference between their bid price—typically $1,999/MWh—and the Ontario Zonal Price, or the Locational Marginal Price (LMP) for price responsive loads. This payment applies only to the energy delivered. Over the 2025 summer and 2025/26 winter obligation periods, so far, some activations were a result of manual constraints being applied by the Control Room, while some were due to the LMPs in the pre-dispatch (PD-3) scheduling run exceeding $1,999/MWh, indicating significant global or local system stress and scarcity—conditions that typically precede an emergency operating state. Accordingly, the IESO deemed these activations qualified for Emergency Activation Payments under the Market Rules permitting compensation for events "leading up to" an emergency operating state. As a result, HDR resources received compensation for the energy delivered. The IESO intends to continue this precedent and provide compensation for activation of HDRs when either (1) the Control Room manually activates the resource, or (2) the PD-3 scheduling run price associated with the activation is at or above $1,999 and the resource responds to the activation as required. As long as HDRs bid at or above $1,999, their activations will meet this threshold and be compensated for energy delivered per the Market Rules.
Partial Activations Several stakeholders raised concerns about the operational impacts of partial activations. They noted that partial	The IESO acknowledges stakeholder concerns regarding partial activations and has completed an internal review to understand the underlying cause. Partial activations can occur under several

activations were not part of the original HDR design intent, with one stakeholder suggesting they have emerged as an unintended outcome of the renewed market. Stakeholders emphasized that partial dispatches are operationally impractical, especially when activation quantities are very small, creating challenges for industrial customers whose curtailment capabilities are often "all-or-nothing." In addition, stakeholders highlighted that cascading or fluctuating MW dispatch quantities within the same event increase execution risk and reduce the ability to plan curtailments effectively Aggregators also reported that partial activations lead to inaccurate performance measurement, because performance is assessed against the entire virtual HDR aggregation, including contributors that were not instructed to curtail, resulting in baseline impacts.	conditions. For virtual HDRs, the primary driver is the tie-break process. Because all virtual HDRs are modeled at the same node within a zone, when multiple resources submit identical bid prices and become marginal, the calculation engine applies the tie-break rule specified in Market Rules Ch.7 App.7.5 s.8.3.2.1. This rule applies to all resource types except variable generation, and it determines how the remaining capacity is allocated among tied resources at the same location. As a result, some virtual HDRs may receive partial activations when the remaining MWs are insufficient to fully activate each tied resource. If bid prices were differentiated, even slightly, the number of partial activations should decrease. For physical HDRs, partial activations can occur either through the same tie-break process or when the resource becomes marginal and the remaining available capacity is less than its bid quantity, resulting in only a partial activation. In general, partial activations represent a small portion of the total HDR activations. For example, partial activations represented about 3% of all HDR activations (in terms of count of resource activations) in summer 2025. Of the partial activations that did occur, 88% were for virtual HDRs. That said, the IESO understands the operational challenges this creates for some participants. We will continue to monitor partial activations and will explore long-term solutions as part of our three-year enhancement plan. In considering potential solutions, we must take into account the impact other market-related improvements, such as changes that impact the frequency of HDR activations,

	could have on the issuance of partial activations. In the meantime, the underlying cause for partial activations may be contemplated to inform the HDR bidding strategy.
Frequent Activations Stakeholders emphasized that HDRs were designed to function as an emergency reliability resource, not as a frequent economically dispatched product. They expressed concern about the increasing frequency of activations, which are contributing to participant fatigue and undermining confidence in the program. Several stakeholders noted that recent activations appear to be driven more by economic signals than genuine system needs, which they view as inconsistent with the intent of HDR resources. They requested clearer differentiation between emergency and economic activations, more transparency around the reasons for activation of HDR, and reinforcement that HDR is fundamentally an emergency resource.	The IESO understands participants have concerns related to the efficient and effective operation of HDR resources in the market. HDR resources have historically bid at $1,999 or higher in the energy market. This bid practice reflects their desire to be activated less frequently and their position as a resource used when the system is under significant stress and scarcity, i.e. when LMPs in the pre-dispatch (PD-3) scheduling run exceed $1,999/MWh. It is under these conditions that we have seen HDRs activated over the last year as Ontario has experienced a variety of challenging system conditions (sustained heat waves, early onset of cold weather). Over this period the market has been producing schedules that have supported reliable operation and are closely linked to the supply and demand fundamentals. That said, the IESO Markets team is currently undertaking a review of HDR activations to determine if the timing of the scheduling of HDR in pre-dispatch is having an impact on the frequency of activation. HDR resources are committed in the pre-dispatch run occurring three hours prior to the activation hour (PD-3). Following this commitment, other supply offers are considered by the dispatch algorithm, and these offers are not "locked in" until the mandatory window 1 hour later (PD-2). This scheduling timing is being reviewed to ensure it is producing an

	efficient market outcome. More information is expected to be provided to stakeholders at a future stakeholder engagement.
Settlement Errors/Issues Stakeholders raised concerns about frequent and significant settlement and invoicing errors following the implementation of the renewed market in May 2025. These errors have created operational and financial challenges, delayed customer payments, and reduced confidence in the program. Stakeholders emphasized the need for improved settlement accuracy, clearer communication on issues and resolutions, and thorough testing of new or modified charge codes to prevent recurring problems.	The IESO continues to enhance the settlement processes associated to capacity auction obligations. In 2025, several competing priorities, including the launch of the renewed market under the Market Renewal Program, affected the timelines for resolving certain system issues that were identified. The IESO remains committed to streamlining Capacity Auction settlement by identifying opportunities to simplify charges where appropriate and ensuring that any required corrections are reflected in the earliest applicable recalculated statement. The IESO will continue to communicate with Capacity Auction participants if, and when, new settlement issues arise.
Erroneous Activations One stakeholder requested that the IESO provide insights into several erroneous HDR activations and a dispatch scheduling error (highlighted during the August 2025 Renewed Market Update webinar), along with actions being taken to prevent reoccurrence of similar issues in the future. The stakeholder noted that erroneous activations cause contributor fatigue and erode participant confidence.	Advisory notices issued on the trade date of the erroneous standby or activation included details about each erroneous event. The IESO works diligently to validate activation notices before they are issued; accordingly, Capacity Market Participants (CMP) should always follow dispatch instructions. If a CMP has a question about an activation notice, they can submit an inquiry via the Capacity Auction Inbox. If an activation is erroneous, the IESO will issue an advisory notice and ensure there are no settlement impacts. The IESO has not yet completed its assessment of the five issues noted on slide 21 of the August 21, 2025 webinar to

	determine if they constitute a dispatch scheduling error. Once the assessment is completed, the impacted market participants will be notified. Please contact IESO Customer Relations with any further questions.

General Comments/Feedback

Feedback	IESO Response
Future Enhancement Proposals Stakeholders proposed a range of future enhancements, including the following: • Developing a more appropriate HDR resource model that explicitly reflects emergency resource characteristics and operational constraints. • Allowing resource performance during in-market activations to substitute for formal capacity tests. • Stakeholders thanked the IESO for implementation of an enhanced tie-break mechanism in the auction clearing as part of the 2025 auction, and acknowledged it had a positive impact. One stakeholder suggested further refining of auction tie-break rules, including potential additional proportional allocation rounds. Stakeholders also encouraged the IESO to publish a clear roadmap of upcoming enhancements, prioritized quick wins, and asked for longer-term changes to incorporate analysis that reflects HDR-specific characteristics, constraints and operational limits when optimizing dispatch decisions.	The IESO appreciates the suggestions regarding potential future enhancements to the capacity auction. Stakeholder input plays an important role in identifying opportunities to strengthen the auction design and helps ensure that this feedback continues to support meaningful improvements to the capacity auction in an efficient and transparent manner. The ideas raised will be added to our list for ongoing evaluation and discussion. These concepts may be considered alongside other priority work as we continue to assess their feasibility and potential benefits. For the tie-break mechanism in particular, the IESO appreciates the feedback that the enhanced tie-break has proven to be a more equitable solution to the previous methodology. While further enhancements could be considered, this must be weighed against other higher priority items that could have an impact on the volume of tie-breaks occurring, such as the virtual zonal limits. Where appropriate, ideas may be brought forward for further exploration in future design cycles. The IESO also acknowledges

	the request for greater visibility into planned enhancements, which will be initiated as part of the March 2026 stakeholder engagement session.
Auction Target Publication Two stakeholders raised concerns about incorporating preliminary Capacity Auction targets into the Annual Planning Outlook (APO). Stakeholders said that doing so may introduce investment uncertainty and contracting risks for participants. Also, subsequent target adjustments might not reflect underlying supply and demand dynamics. One stakeholder further recommended that the IESO only reduce the preliminary target in exceptional circumstances.	The recently published 2026 APO, included preliminary target capacities for the 2026 auction based on the APO's integrated capacity needs assessment. It also included minimum target capacities for each obligation period and forward guidance for future auctions to signal a predictable and stable marketplace for capacity suppliers to invest in operations in Ontario. If reliability risks emerge due to unanticipated demand- or supply-side uncertainties materializing after publication of the APO, the firm target capacity may be incrementally increased, or decreased, relative to the preliminary target capacity, and will be published in the Pre-Auction Report in accordance with the Market Rules. To address concerns, the IESO will aim to publish the Pre-Auction Report earlier than in recent years. Using this process allows the IESO to give prospective participants an early indication of the anticipated target capacity, but ensures targets are finalized using the most current information available about reliability needs. This flexibility supports the auction's role in meeting short-term resource adequacy needs.
ICI-Related HDR Baseline Impacts Stakeholders noted that consumer curtailments under the Industrial	Participants can hold an obligation through the Capacity Auction and be enrolled in ICI. Curtailment for both, however, must be carefully managed operationally. When called

Conservation Initiative (ICI) are increasingly coinciding with Capacity Auction (CA) HDR activations. It was mentioned that this can erode the baseline in two ways: 1) If an HDR activation immediately follows curtailment for ICI, the in-day adjustment factor (IDAF) applies and erodes the baseline 2) Due to the increasing frequency of potential peak demand days, curtailment for ICI is increasingly intersecting with days used in the baseline calculation for HDR resources which leads to baseline erosion. Two stakeholders suggested alternative baseline methodologies to address these issues.	on through the market, curtailment from Capacity Market Participants (CMPs) with Capacity Auction obligations was designed to be incremental, dispatchable capability to provide relief to the grid. As per the final engagement report on the baseline methodology review conducted by the IESO in 2021-22, it was concluded that it would not be appropriate to allow for an opt-out of the IDAF as it would create a potential misalignment between desired resource behaviour based on the definition of the product the IESO has procured and the measurement of its performance. In other words, if a facility had curtailed for ICI prior to the CA resource activation it is not providing incremental curtailment in real-time for the hour it was dispatched for as a HDR resource. Regarding more frequent ICI curtailment impacting days used to calculate the baseline for an HDR activation, the IESO will consider this feedback as part of the Improve Performance enhancement initiative.
2023 Enhancement Update One stakeholder asked if performance-related design changes introduced in 2023 are delivering the intended outcomes.	As discussed in the January 2026 engagement, the 2025 auction was the first in which a performance adjustment factor (PAF) was applied in both the summer and winter obligation periods. Due to positive capacity test performance, the PAF de-rated only a modest number of resources' qualified capacity, and generally speaking, capacity test results have been positive since the inception of the new testing framework. As part of the Improve Performance enhancement initiative, the IESO will be

	considering other mechanisms to incent more accurate and reliable performance during market activations.
Resampling of Utility Data Stakeholders noted that not all utilities provide five-minute interval meter data and suggested that market rules and manuals clarify that resampling to five-minute intervals is permitted. Alternatively, they recommend that the IESO update its measurement data requirements to align with the granularity of meter data provided by utilities.	As outlined in Market Manual 12, Capacity Market Participants (CMPs) are required to submit measurement data on a five-minute interval basis for virtual C&I HDR resources. When utility data is not available in five-minute intervals, the market rules do not prohibit the re-sampling of utility data into five-minute interval data for measurement data submissions to meet the five-minute submission requirement. Currently, the IESO does not anticipate any need to modify the existing measurement data requirements.
Prudential Support Stakeholders suggested expanding prudential support options beyond Letters of Credit to help reduce the administrative burden for participation.	The IESO previously discontinued the acceptance of cash as prudential support due to legal and administrative constraints. Under the Personal Property Security Act (Ontario), cash collateral would require formal registration and negotiation of multiple priority agreements with existing creditors, an administratively burdensome process that the IESO is not resourced to undertake at this time.