



Capacity Auction Enhancements

October 16, 2026

Capacity Auction Team



Welcome!

We will begin momentarily. Please ensure your microphones are muted. Thank you.

Territory Acknowledgement

The IESO acknowledges the land from where we are delivering today's webinar is the traditional territory of many nations including the Mississaugas of the Credit, the Anishinaabeg, the Chippewa, the Haudenosaunee and the Wendat peoples, and is now home to many diverse First Nations, Inuit and Métis peoples. We also acknowledge that Toronto is covered by Treaty 13 with the Mississaugas of the Credit First Nation.

As we have attendees from across Ontario, the IESO would also like to acknowledge all the traditional territories across the province, which include those of the Algonquin, Anishinaabeg, Ojibwe, Cree, Oji-Cree, Huron-Wendat, Haudenosaunee, Métis, and Inuit peoples.

Engagement Principles

This engagement is conducted in accordance with the IESO's [External Engagement Framework](#), which includes the following principles:

- **Purposeful** – Initiate meaningful conversations that move the sector forward
- **Inclusive** – Invite many voices and diverse perspectives to the table
- **Timely** – Seek input and insight when it can have the most impact
- **Accessible** – Ensure we meet people where they are on their energy journey
- **Traceable** – Allow everyone to follow the path that is being taken
- **Transparent** – Show how engagement helped shape the final outcome

Shared Commitment to Respectful Participation

To support a focused and constructive discussion:

- We will take questions one at a time; please use the raise-hand feature to enter the speaking queue
- We encourage concise and focused comments to allow time for multiple perspectives
- Participants are encouraged to raise relevant points during the discussion and provide more detailed feedback through the written submission process
- We ask that all participants maintain a respectful and professional tone throughout the session
- Facilitators will guide the discussion and manage participation to stay aligned with today's focus and agenda
- Where necessary, we may disable a participant's microphone to manage participation

Participation

- For questions and comments click on the “Raise hand” icon (hand symbol) at the top of the application window. This will indicate to the host you would like to speak
- To unmute audio, click on the microphone icon at the top of the application window
- Audio should be muted when not asking a question
- Connection issues contact engagement@ieso.ca or Microsoft Office Support

Today's Discussion

At today's session the IESO will:

- Discuss feedback from the August engagement
- Provide an overview of the following 2027 Capacity Auction enhancements
 - Expanding Capacity Test Window
 - Improving Hourly Demand Response (HDR) Performance
- Highlight upcoming milestones for the 2026 Capacity Auction
- Outline next steps for the 2027 Capacity Auction Enhancements



Summary of Stakeholder Feedback: August 2026 Session

August Stakeholder Feedback

- The IESO requested feedback following the August 20, 2026, stakeholder engagement session and five responses were received.
- The IESO's full response to stakeholder feedback will be posted shortly to the [Capacity Auction Enhancements](#) engagement webpage.
- Summaries of stakeholder feedback related to activation certainty, the expanded test window and improving HDR performance will be discussed in the relevant sections of today's presentation.

Stakeholder Feedback: Activation Certainty

Feedback Themes:

- Bid revision timelines are too short: Resources may not have sufficient time to confirm deliverable capability and update bids before the start of the mandatory revision window.
- Advance notice and activation certainty are key: Longer notice and greater certainty of activation are critical to improving HDR participation and performance.
- Activation caps could improve participation: Stakeholders broadly supported limits on total number of activations, noting that greater predictability would help manage operational risk and support more consistent performance.

IESO Response: Activation Certainty

- The IESO welcomes stakeholder feedback on the topic of activation certainty and will look to continue discussion on this topic in future engagements as we develop enhancements that will achieve more certain and reliable participation from demand response resources.
- In the meantime, the IESO provides access to extensive information on grid conditions via advisory notices, pre-dispatch schedules and adequacy reports. Participants are encouraged to continually monitor these reports to maintain awareness of potentially tight system conditions.
- In addition, participants must ensure they have sufficient visibility (i.e., data collection/monitoring systems) into the operational capability of their resource to continually update bids as the dispatch hour approaches.

Stakeholder Feedback: Baseline Methodology

- Suggestion to apply the in-day adjustment factor at the contributor level rather than the aggregation.
- The impact of the in-day adjustment factor on the baseline is not known until after the close of the mandatory window, which makes it difficult for participants to adjust bids to reflect this capability.
- Contributor decisions to curtail for the Industrial Conservation Initiative (ICI), on the day of, or on the days leading up to, an activation can erode the customer baseline, in turn reducing the measured performance. This can happen through the in-day adjustment compressing the baseline due to peak shaving activities earlier in the day, and through prior peak shaving days included in the lookback period for the baseline calculation.
- Stakeholders suggested the IESO conduct a baseline methodology review, especially considering ICI.

IESO Response: Baseline Methodology

- The IESO's position is that baseline adjustments should reflect the actual consumption patterns of a contributor leading up to an IESO activation. If a contributor has been regularly curtailing consumption for ICI during the lookback period, reflecting this in the baseline calculation is appropriate because it indicates the load has not consistently been consuming in those hours and therefore-was not available to curtail.
- The IESO completed a review of the baseline methodology in 2021, [here](#) and [here](#), and posted a [final engagement report](#) which concluded that the current baseline methodology was an effective, accurate measure relative to other options.
- That said, the IESO will consider concerns raised by stakeholders regarding the timing of the in-day adjustment relative to the bid adjustment as part of future auction enhancements.



Expanded Capacity Test Window Enhancement

Recap: Expanded Capacity Test Window

- At the August 2026 engagement, the IESO introduced a proposal to expand the current capacity test window to a one-month testing window occurring at the start of each obligation period, for all resource types.
- The IESO also indicated that the demand response bid price threshold will only be waived for the test event submitted by the participant to the IESO for evaluation.
- With an expanded test window, the IESO indicated that the allowable exception for SEAL events⁽¹⁾ will be removed, and only the following limited circumstances may qualify for test rescheduling/exception requests.
 - Force majeure event
 - Outage caused by a third-party market participant
 - For imports, a bona fide and legitimate reason as outlined in MR Ch.7 s.7.5.8A
- (1) As outlined in MR Ch.7 s.7.5.3.

Stakeholder Feedback

- Stakeholders generally support the change, noting it would provide greater flexibility for outage and maintenance scheduling and reduce the risk that isolated events affect qualification outcomes.
- One stakeholder suggested that the one-month window should occur in the second month of the obligation period, stating this timing would set the baseline closer to peak conditions when HDR resources are obligated to perform.
- One stakeholder asked for clarification as to whether an HDR emergency activation could be used for a capacity test assessment if it occurred in the first month of the obligation period, as well as timelines for data submission.

IESO Response

- The IESO appreciates the support for the one-month testing window.
- The IESO does not support the stakeholder proposal to move the one-month testing window to the second month of each obligation period. The capacity procured through the Capacity Auction is a six-month product, and resources are expected to be capable of delivering the capacity obligation throughout the six-month period. While activations often coincide with system peaks, they can also happen outside of peak during times of system stress. For this reason, the obligation to perform spans the entire six-month obligation.
- HDR emergency activations that occur within the one-month window can satisfy the test if they meet the requirements (e.g., four hours in length, activated to cleared ICAP).
- Data submission timelines will remain unchanged and will occur after the close of the testing window and be specific by resource type.

Testing Window for Generator-Backed Imports

- Following further internal consideration, the one-month testing window will apply to all resource types except generator-backed import (GBI) resources.
- GBI resources will continue to be subject to the existing two-month testing window.
- This exception recognizes the additional coordination requirements that exist for GBI participants and their host jurisdiction or other neighbouring jurisdictions in which they may be participating, providing the flexibility needed to complete testing and market activities.

New Capacity Testing Design Proposal

- In the next section, and as part of the Improve HDR Performance enhancement, the IESO will introduce a new design proposal related to the capacity test for HDR resources that will include the core design of the one-month testing window enhancement as outlined at the August 2026 engagement.
- Stakeholder feedback is requested on the new enhancement design for capacity testing of HDR resources.



Improve HDR Performance

Recap: Improve HDR Performance

- HDR resources have historically underperformed relative to both their obligation and dispatch instructions when activated in the energy market.
- The IESO needs an accurate picture of available capacity from auction resources and must be able to rely on the capacity it procures to be delivered in real-time when managing the system.
- As Ontario demand increases and supply conditions tighten, continued underperformance may undermine reliability during periods of critical system need and decrease overall confidence in HDR resources as a reliable source of capacity.

Overview: Improve HDR Performance

- The goal of the Improve HDR Performance enhancement is twofold:
 - Improve HDR activation performance relative to capacity obligations
 - Encourage more accurate energy market bid submissions and compliance with dispatch instructions
- In today's session, the IESO will go through stakeholder feedback and high-level design proposals related to these two objectives.



Improve HDR Performance: Activation Performance Relative to Obligation

Background – Delivery to Obligation

- During the August engagement, we discussed how capacity test results indicate that HDRs can meet performance expectations when provided sufficient time to prepare.
- While capacity tests provide a useful measure of capability under ideal conditions, performance during emergency activations is a better representation of performance during conditions when a resource could be required to deliver on its capacity obligation.
- The IESO is interested in reflecting HDR performance in emergency activations into the HDR qualification methodology.

Overview: Current Design – Capacity Test and PAF

- All resources are required to demonstrate their capability through a self-scheduled capacity test and the results are used to inform capacity qualification in the annual Capacity Auction through the application of a performance adjustment factor (PAF).
- The PAF can reduce a resource's qualified UCAP if test performance falls below the applicable requirement (which differs by resource type).
- For HDRs, demonstrated capability below 90% of the resource's cleared ICAP would result in the application of a PAF in a subsequent capacity qualification period and may also result in an in-period de-rate during the obligation period.

Overview: HDR Capacity Test Enhancement

- An emergency activation (i.e., an activation eligible for an emergency payment) in the most recently completed seasonal obligation period may be used to exempt a HDR resource from the capacity test requirement, if the emergency activation meets the capacity test criteria.
- Resources that were not subject to an emergency activation, or whose activation performance does not meet the capacity test requirements (i.e., deliver to at least 90% of its cleared ICAP), will be required to complete a capacity test during the one-month testing window in the next applicable obligation period.

Design Details: HDR Capacity Test Enhancement 1/2

- The IESO will determine if an HDR emergency activation from the most recently completed seasonal obligation period meets the capacity test procedures as outlined in Table 5-1 of MM12.
 - Resource must be scheduled to its cleared ICAP
 - Activation must be for four consecutive hours
- If an activation meets this criteria, performance will be assessed using the same parameters as currently applied to capacity tests as outlined in Table 5-2 of MM12.
 - Resource must deliver to at least 90% of its cleared ICAP
- If the activation satisfies these requirements, the HDR will not be required to complete a capacity test in the next applicable obligation period

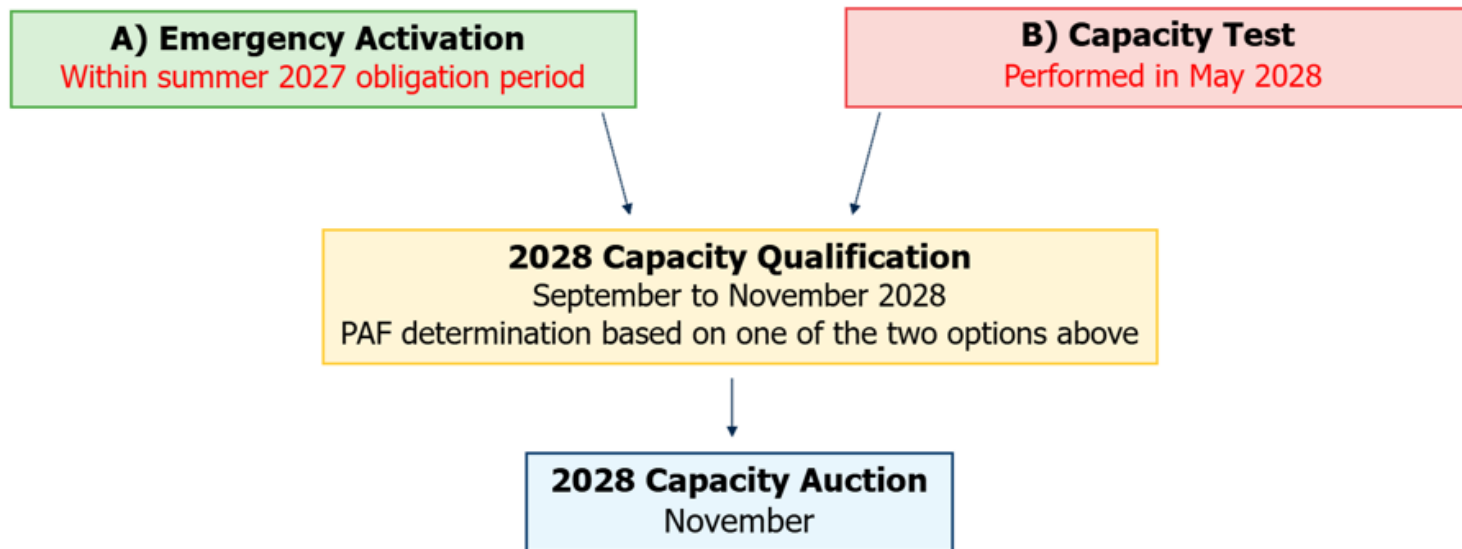
Design Details: HDR Capacity Test Enhancement 2/2

- The HDR resource will be required to complete a capacity test during the one-month testing window in the next applicable obligation period under the following circumstances:
 - The HDR resource was not subject to an emergency activation in the most recently completed seasonal obligation period.
 - The HDR resource's emergency activation(s) from the most recently completed seasonal obligation period did not meet test procedures as outlined in Table 5-1 of MM12
 - The HDR resource's emergency activation performance did not meet the test performance parameters as outlined in Table 5-2 of MM12.

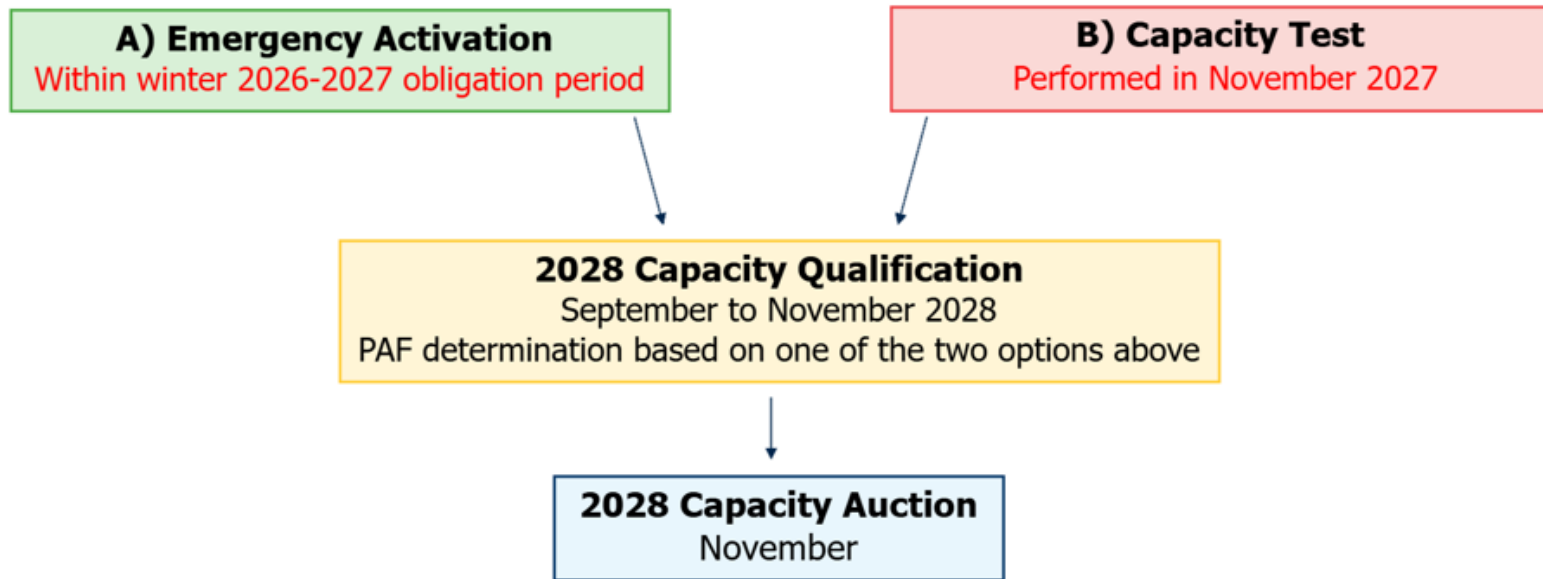
Rationale & Benefits: HDR Capacity Test Enhancement

- Performance in emergency activations provides a reliable indication of the capability of an HDR resource during times of system stress. If the resource can demonstrate its cleared ICAP in these activations it should satisfy test requirements.
- Allowing emergency activations to satisfy test requirements also provides the following benefits:
 - Encourages HDR resources to deliver maximum capability during times when the system is most in need of capacity, offering reliability benefit.
 - Eliminates need for additional HDR testing activations to demonstrate delivery to maximum capability (i.e., cleared ICAP) and streamlines auction participation.

Example: Historical Activation Lookback (Summer)



Example: Historical Activation Lookback (Winter)



Stakeholder Feedback Requested

- Does the proposed testing rules encourage activation delivery to the obligation amount?



Improve HDR Performance: Accurate Energy Market Bid Submissions and Compliance with Dispatch Instructions

Background – Accurate Energy Market Participation

- Historically, HDR resource bids have not been a reliable indicator of availability.
- In summer 2025, a majority of real-time HDR bids remained unchanged at the obligation value despite HDRs only delivering ~64% of capacity obligations.
- From an operational perspective, uncertainty about how much the HDR fleet is available to deliver makes managing system conditions more complex.
- Capacity that is activated is being relied upon to show up in real-time. When it does not, operators must take other actions to maintain reliability of the grid.

Feedback

Stakeholders provided the following feedback related to settlement incentives and its impact on bid adjustments:

- Settlement incentives are misaligned, with the availability charge and the dispatch charge having a similar magnitude, creating little financial incentive to update the bid to reflect capability.
- Stakeholders suggested the dispatch charge should be higher than the availability charge to incent better availability management and compliance with dispatch.

IESO Response

- The Market Rules require all market participants to submit bids into the market that reflect their capability, to the best of their knowledge at the time. Financial incentives should not influence a market participant's responsibility to reflect true capability in bid submissions.
- The IESO agrees that the current incentive structure for dispatch performance can be improved.
- The IESO is proposing a new enhancement to realign this inter-connected set of settlement charges

Feedback Request: Reflecting Capability in HDR Bids

- Historical bid submission data indicates the majority of HDR resources are not reflecting their true capability in bids. Those that are updated are not done until an activation notice is received. This is supported by stakeholder feedback that notes financial incentives may not encourage this behaviour.
- The IESO would like greater insight into how HDR resource owners assess and reflect their capability in bids in the day-ahead and real-time timeframes.

Feedback Request: Reflecting Capability in HDR Bids

- What does the process look like to assess capability and submit a bid according to this capability in day ahead?
- How does this process differ when an activation notice is received day-of?
- What is the typical timeline for this assessment of capability to occur? 1-2 hours or more?
- How far in advance can this capability be firmed up?
- In addition to written feedback, the IESO will conduct targeted outreach with HDR stakeholders to gain insight into this topic.



High-level Design: Emergency Activation Charge

Overview: Current Payments Applicable to HDRs

- **Availability Payment CT-1314** hourly payment for making capacity available. Equal to the auction clearing price multiplied by the capacity obligation.
- **Emergency Activation Payment (EAP) CT-1320** compensates HDR resources when activated in tight supply conditions. HDRs typically bid at \$1,999/MWh, reflecting a role as a resource used when the system is under significant stress or scarcity. The EAP is capped at the minimum of the scheduled curtailment MW value or the resource's capacity obligation.
 - $EAP = [HDR \text{ Bid Price} - DA-OZP] \times \text{Delivered MW}$

Overview: Current Charges Applicable to HDRs

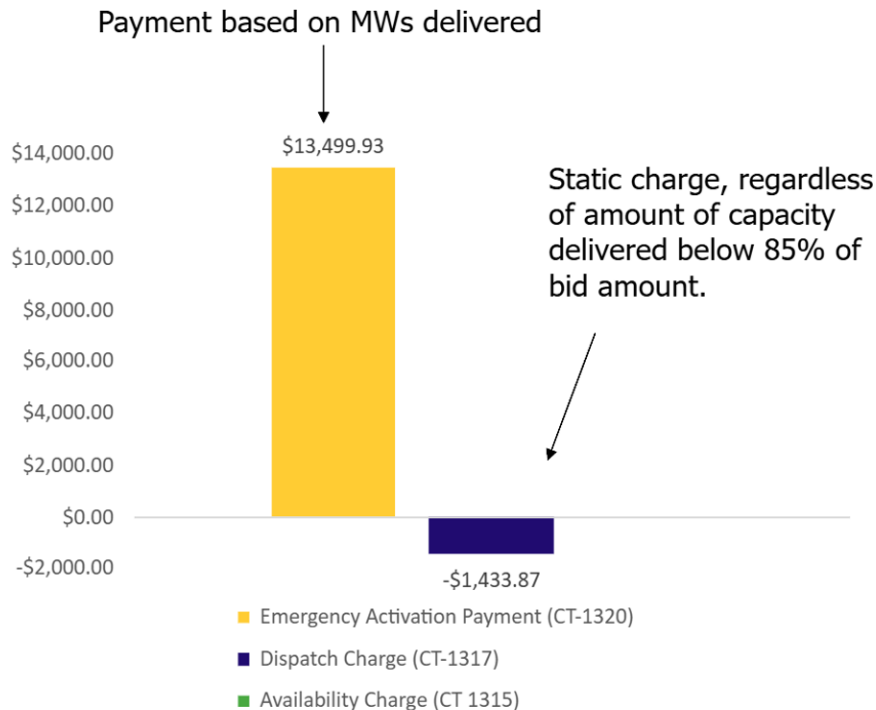
- **Dispatch Charge CT-1317** hourly charge applied for not following dispatch instructions within a 15% lower threshold. It is equal to the hourly availability payment for the MWs dispatched multiplied by the applicable monthly non-performance factor.
- **Availability Charge CT-1315** hourly charge applied when the bid is less than the capacity obligation. It is equal to the availability payment for the MWs not made available, multiplied by the applicable monthly non-performance factor.

Incentive Misalignment

Under the current compensation framework, the high activation payment coupled with low penalties create weak dispatch compliance incentives.

Inputs:

Obligation: 10 MW
Bid Quantity: 10 MW
Delivered MW: 7.5 MW
OZP: \$200/MWh (estimated)
Bid Price: \$1,999/MWh
Hourly Clearing Price: \$71.69
NPF: 2

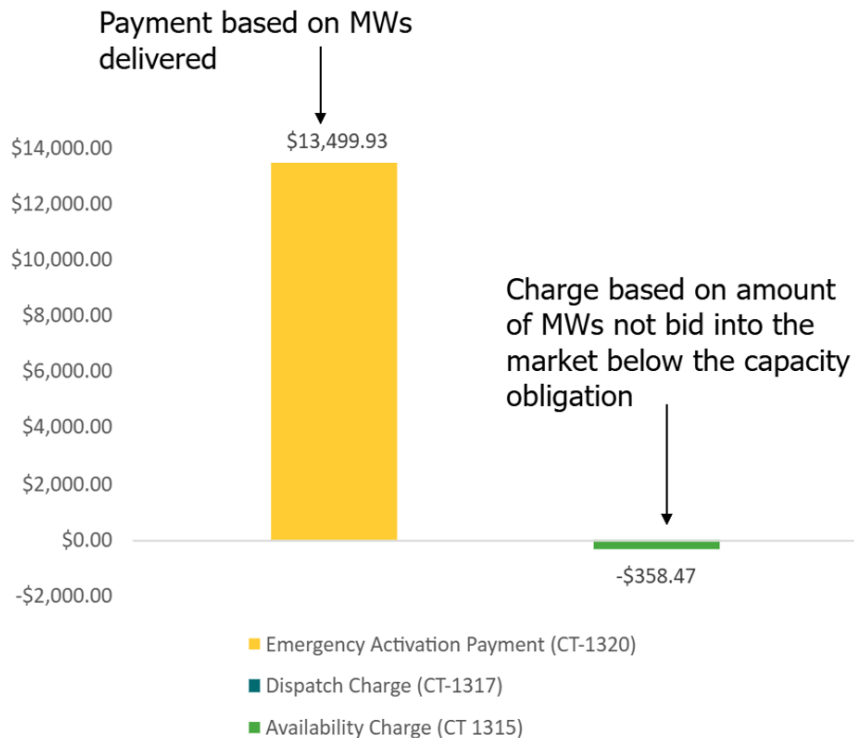


Incentive Misalignment

The emergency activation payment also far outweighs the availability charge.

Inputs:

Obligation: 10 MW
Bid Quantity: 7.5 MW
Delivered MW: 7.5 MW
OZP: \$200/MWh (estimated)
Bid Price: \$1,999/MWh
Hourly Clearing Price: \$71.69
NPF: 2



Proposed Enhancement: Emergency Activation Charge

To strengthen the dispatch compliance signals, a new charge is being proposed to apply to emergency activations in place of the current dispatch charge (CT-1317). The Emergency Activation Charge (EAC) is designed to achieve the following objectives:

1. Incent HDR resources to **more accurately bid** their capability prior to the activation hour.
2. Drive better performance (**delivery to activation**)

Overview: Emergency Activation Charge (EAC)

- This charge establishes a **performance-based financial incentive** that penalizes for MWs not delivered during an emergency activation.
- Working alongside the emergency activation payment (EAP), resources will be paid for MWs delivered and penalized for MWs not delivered, relative to the HDR activation amount (MW).
- Charge amount is directly proportionate to the MWs of under-delivery.
- Therefore, the financial penalty will increase as performance declines relative to HDR activation amount.

Rationale and Benefits

HDR activation data shows that bids are rarely changed. When bids are changed, it is almost always after PD-3. Since this proposed charge applies to the difference between the final activation notice MW and the delivered MW, it achieves the following:

- **More accurate HDR resource bids** in general, reflective of anticipated delivery.
- **Improved dispatch compliance** through increased financial penalties for underperforming relative to activated amount.
- **Improves confidence** and predictability in HDR availability for operational planning.
- **Eliminates incentive misalignment** for HDR resources that results in leaving bids at the capacity obligation amount even when a resource expects to deliver less.

EAC Parameters

The EAC will replace the current dispatch charge and include the following parameters:

- Applies to all emergency activations
- Performance is measured against the HDR activation amount
- Penalty calculated using the HDR bid price, creating a link between the payment and the new EAC charge
- Exception to the charge: If the bid quantity must change during the mandatory window and/or during activation hours due to a SEAL event (safety, legal and equipment damage reasons) as detailed in section 7.5.3 of Chapter 7 of the market rules

Emergency Activation Charge Calculation

$$\text{EAC} = (\text{HDR Activation Amount MW} - \text{Delivered MW}) * \text{Bid Price}$$

Where:

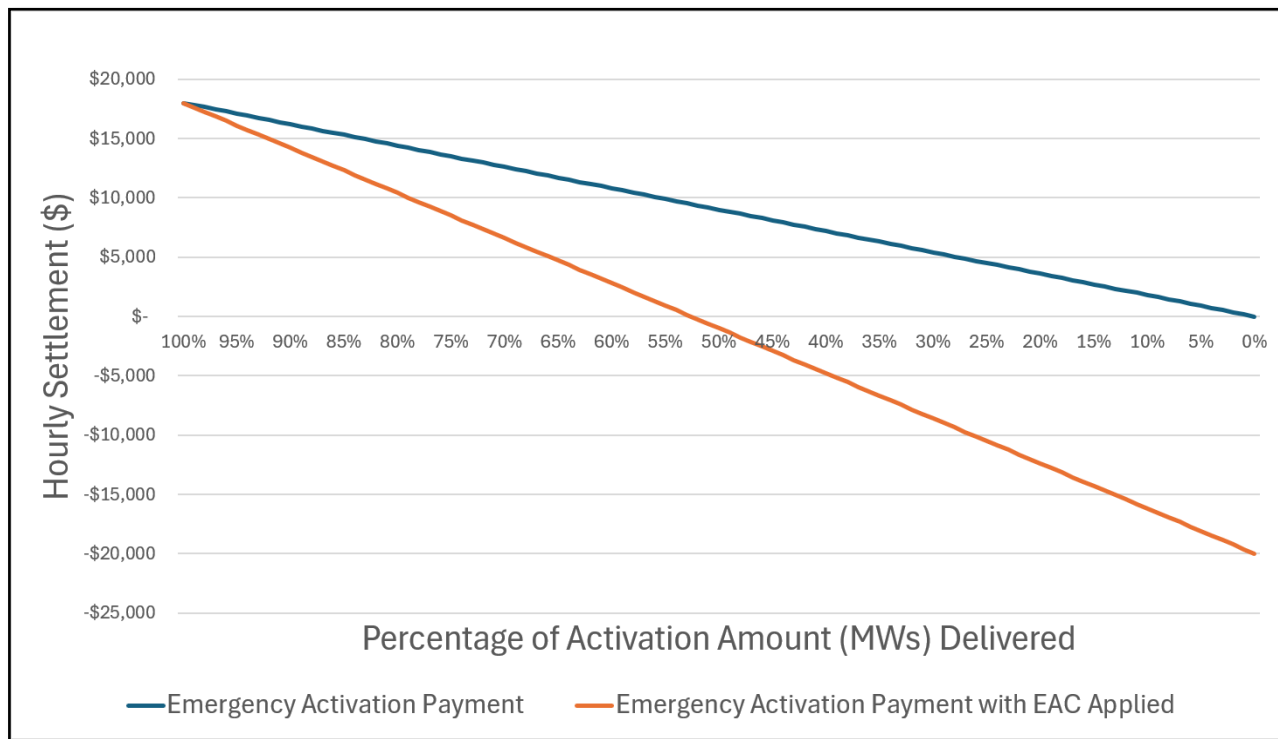
Delivered MW = Measured curtailment

Bid Price = HDR bid price in EAP-eligible activations, i.e., activations where the HDR resource is bidding at least \$1,999.

Application of Emergency Activation Charge

Inputs:

Obligation: 10 MW
Bid Qty: 10 MW
Activation Qty: 10 MW
OZP: \$200/MWh
(estimated)
Bid Price: \$1,999/MWh
Hourly Clearing Price:
\$71.69
NPF: 2



Settlement Example: No Bid Adjustment (75% Delivery)

Variable	Value
Obligation	10 MW
Bid	10 MW
Activation Amount	10 MW
Delivered Capacity	7.5 MW
Activation Duration	1 hour
Clearing Price (\$/MW-BD)	\$645.24
Clearing Price Hourly	\$71.69

Settlement Component	Current Settlement	New Settlement	Change
Availability Payment	\$716.90	\$716.90	\$0.00
Emergency Activation Payment	\$13,499.93	\$13,499.93	\$0.00
Availability Charge	\$0.00	\$0.00	\$0.00
Dispatch Charge	- \$1,433.87	N/A	\$1,433.87
Emergency Activation Charge	N/A	- \$4,999.98	- \$4,999.98
Net Settlement	\$12,782.96	\$9,216.85	- \$3,566.11

Settlement Example: Bid Adjusted (75% Delivery)

Variable	Value
Obligation	10 MW
Bid	7.5 MW
Activation Amount	7.5 MW
Delivered Capacity	7.5 MW
Activation Duration	1 hour
Clearing Price (\$/MW-BD)	\$645.24
Clearing Price Hourly	\$71.69

Settlement Component	Current Settlement	New Settlement	Change
Availability Payment	\$716.90	\$716.90	\$0.00
Emergency Activation Payment	\$13,499.93	\$13,499.93	\$0.00
Availability Charge	- \$358.47	- \$358.47	\$0.00
Dispatch Charge	\$0.00	N/A	\$0.00
Emergency Activation Charge	N/A	\$0.00	\$0.00
Net Settlement	\$13,858.38	\$13,858.38	\$0.00

Settlement Example: Bid Adjusted and Under-Delivery

Variable	Value
Obligation	10 MW
Bid	7.5 MW
Activation Amount	7.5 MW
Delivered Capacity	6 MW
Activation Duration	1 hour
Clearing Price (\$/MW-BD)	\$645.24
Clearing Price Hourly	\$71.69

Settlement Component	Current Settlement	New Settlement	Change
Availability Payment	\$716.90	\$716.90	\$0.00
Emergency Activation Payment	\$10,799.94	\$10,799.94	\$0.00
Availability Charge	- \$358.47	- \$358.47	\$0.00
Dispatch Charge	- \$1,075.35	N/A	\$1,075.35
Emergency Activation Charge	N/A	- \$2,999.99	-\$2,999.99
Net Settlement	\$10,083.01	\$8,158.42	-\$1,924.64

Stakeholder Feedback Requested

- Do stakeholders agree with the proposed design of the emergency activation charge?
- Does this appropriately address the misaligned settlement incentives stakeholders pointed out in previous feedback submissions?
- Is there potential for any unintended participant behaviour to arise from this proposed enhancement?

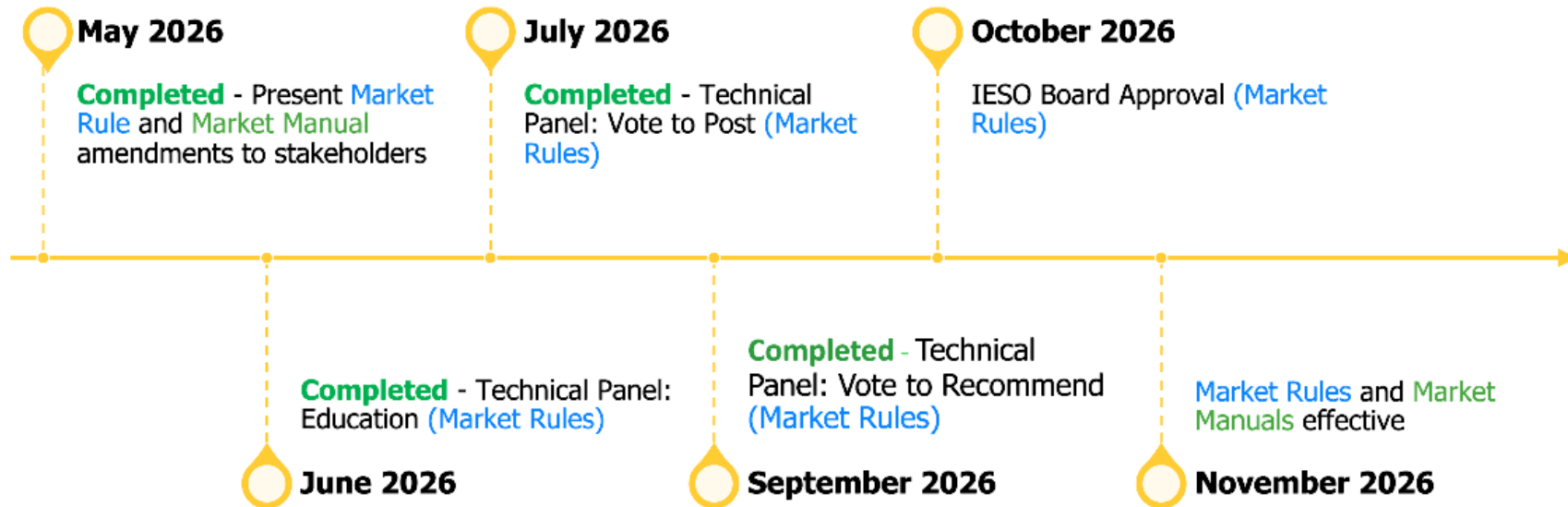


2026 Capacity Auction Milestones:

2026 Capacity Auction Milestones

- Capacity Qualification
 - Assessment window is underway Oct. 13 – 19
 - Assessment results will be released on Oct. 20
 - Deposit submission window is open Oct. 20 – Nov. 18
- 2026 Capacity Auction offer submission window is Nov. 25 – Nov. 26
- Refer to the [2026 Capacity Auction Timelines](#) for additional dates.

Timing of MR/MM Amendments for 2026 Auction





Next Steps:

Request for Feedback

- The IESO is requesting stakeholder feedback on:
 - New HDR capacity test enhancement proposal to allow emergency activations to satisfy testing requirement in addition to the one-month test window
 - New HDR emergency activation charge design proposal
- A feedback form is posted on the [Capacity Auction Enhancements](#) webpage.
- Feedback is requested by **October 30, 2026**.
- Please contact engagement@ieso.ca if you have questions following this session.

Next Steps

- The IESO will continue developing high-level designs for the proposed 2027 enhancements after reviewing stakeholder feedback.
- The IESO anticipates holding an additional engagement in December 2026 and throughout Q1-Q2 of 2027.
- December 2026 anticipated engagement session topics:
 - Further development of 2027 enhancement designs, including:
 - Improving HDR Performance, and Review of UCAP Methodologies for Dispatchable Loads and Generator-Backed Imports
 - Updated 2027 enhancements timeline

Disclaimer

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