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Market Rules Exemption for Regulation Service

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Purpose and Summary

Purpose

- Seeking Exemption Panel decision on exemption from two Market Rule sections to enable the IESO to contract for regulation services with Market Participants (MPs) that have not yet fully met all registration or technical requirements.

Summary

- Given pressing reliability needs, the exemption would allow the IESO to contract with Market Participants that do not yet have the required equipment necessary to provide regulation services. Contracting with Market Participants will provide cost certainty enabling them to procure the necessary equipment in order to meet the registration and technical requirements. The regulation service providers would not provide regulation service until they meet all requirements.

Summary (Continued)

Summary

- Once contracted, the Market Participants can begin the full process of procuring equipment and becoming regulation-ready, which is estimated to take 12–18 months.
- Earlier contracting enables timely delivery of incremental regulation capacity.

Significant Issues, Risks and Opportunities

Reliability: Without the exemption, the IESO may be unable to procure sufficient regulation capacity, increasing reliability risk.

Timing: Lengthy onboarding timelines make near-term contracting flexibility critical.

Market access: The exemption expands the pool of potential providers, creating a new revenue opportunity for Market Participants while enhancing price competition.

Governance: The exemption is time-limited, targeted, and maintains all technical and performance requirements prior to service delivery.

Authority and Process for an IESO Exemption

Electricity Act and Market Rule Authority

The *Electricity Act* s. 36.1 and Market Rules Ch.1 s.14 and Ch.11 definition collectively authorize a Panel of the IESO Board to consider exemptions initiated by the IESO, using the same process applied to Market Participant requests.

- Exemptions to the IESO have been granted in 2020 and 2023.

Process

- An IESO exemption application may be brought where the Market Rule obligation applies to the IESO.
- The governance safeguards that apply include the opportunity for third party submissions, Exemption Panel decision-making authority, approved terms and conditions, and duration set by the Exemptions Panel.

Regulation Service Exemption – Background

- The IESO is seeking an exemption from portions of Market Rule Ch.5 s.4.3.1 and Market Rule Ch.7 s.9.2.1 that limit the IESO to contracting with regulation service providers who have demonstrated an ability to provide those services in accordance with the relevant technical requirements in MR Ch.5 s.4.
- The IESO is seeking the exemption for a three-year period to respond to the urgent need for additional regulation service. During this period, the IESO intends to pursue a Market Rule amendment to permanently address the matter.

Relevant Market Rules Sections

Market Rule Ch.5 s.4.3.1:

"[...] Prior to entering into a contract with any ancillary service provider, the IESO shall determine whether the facilities, resources and procedures of such ancillary service provider meet the applicable requirements for registration in respect of the ancillary service(s) to be provided and are otherwise in compliance with the technical requirements of this Chapter. The IESO shall not contract for ancillary services with an ancillary services provider whose facilities or resources are not in compliance with such requirements."

Relevant Market Rules Sections (cont.)

Market Rule Ch.7 s.9.2.1:

"Subject to sections 9.4 and 9.5.2, the IESO shall procure contracted ancillary services through contracts between the IESO and ancillary service providers that are registered market participants who have demonstrated the ability to provide such contracted ancillary services from facilities or resources in accordance with the performance standards and other applicable requirements of MR Ch.5 s.4. Contracted ancillary services shall meet all applicable standards set forth in MR Ch.5 s.4 and shall be procured such as to enable the IESO to meet its obligations thereunder."

Regulation Service Exemption – Why Now?

- The 2025 and 2026 Annual Planning Outlooks (APO) identified an urgent need for additional regulation capacity for the next decade. The IESO is not able to meet this need with currently contracted regulation facilities and must find other Market Participants willing to provide regulation service.
- After a sector engagement in 2025, there was interest in providing regulation service from existing facilities that are not currently enabled to. However, the existing Market Rules prohibit the IESO from contracting for regulation service with a facility that is not already regulation ready.

Regulation Service Exemption – Why Now? (cont.)

- Satisfying the relevant technical requirements requires investment in specialized equipment that is only used to provide regulation service.
- Therefore, without an exemption, the IESO may only contract with facilities that have already made a significant capital investment to provide regulation service, even though they have no contract.
- It is highly unlikely Market Participants will be willing to take on this risk.

Restrictions on Contracting

- If the exemption is granted, the IESO's procurement will be limited to the amount of regulation that is anticipated to be required during the term of the exemption per the 2026 APO.
- The IESO will ensure that contracted regulation service providers do not provide the service until they meet all required technical requirements.
- The IESO will also endeavour to contract for regulation services with Market Participants with facilities that are best positioned to meet the technical and registration requirements.

IESO Staff Recommendation

- The IESO recommends the exemption is granted to allow the IESO to contract with suppliers that have not yet met all the technical requirements.
- The proposed exemption was published for third party comment, and while the IESO did receive a clarifying question from a Market Participant that currently provides most of the regulation service, no third party submissions were received.
- Granting the exemption would have a positive and material impact on the ability of the IESO to maintain the reliable operation of the grid.
- Additionally, the exemption would enhance the efficiency and competitiveness of the IESO-administered markets by expanding the pool of potential regulation service providers.