

IESO Staff Recommendation to Panel on Exemption Application

NOTE: All information submitted in this process will be used by the *IESO* solely in support of its obligations under the "Electricity Act, 1998", the "Ontario Energy Board Act, 1998", the *market rules* and associated policies, standards and procedures and its licence. All submitted information will be assigned the appropriate confidentiality level upon receipt.

Terms and acronyms used in this Form that are italicized have the meanings ascribed thereto in Chapter 11 of the *market rules*.

Part 1 – General Information	
Market participant name:	N/A
Location/site:	N/A
Exemption application ID:	1369
Description of exemption requested:	Please see Appendix A
Date exemption application received:	2026/03/24
Date all relevant application information supplied by exemption applicants:	2026/03/24
Management approvals obtained:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there any outstanding disputes, compliance actions, or pending <i>market rule</i> amendments involving the	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

<p>subject matter of this <i>exemption application</i>?</p>	
<p>Are there any outstanding disputes, compliance actions, or pending <i>market rule amendments</i> involving the <i>exemption applicant</i>?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Note: The IESO is involved in various outstanding disputes and pending market rule amendments. None relate to the subject matter of this exemption application.</p>
<p><i>Market Rule(s)</i> or related <i>market manual(s)</i> from which <i>exemption</i> is requested (copy of <i>market rule(s)</i> or <i>market manual(s)</i> attached):</p>	<p>The IESO is seeking an exemption from portions of the Market Rule Chapter 5, Section 4.3.1 and Chapter 7, Section 9.2.1 that limit the IESO to contacting with regulation service providers who have demonstrated an ability to provide those services in accordance with certain technical requirements.</p>
<p>Third party submissions received:</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>Supplemental assessment information Attached:</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>Related historical <i>exemption application(s)</i> or related <i>exemption application(s)</i> in Process:</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If YES, list history of <i>exemption applications</i>:</p> <p>N/A</p>
<p>Role of <i>exemption applicant</i> in the market as it relates to this <i>exemption application</i>:</p>	<p>System Operator</p>

Part 2 – Recommendation

Criteria used in assessment of *exemption applications* (Section 3.2.4 of the Exemption Application and Assessment Procedure)

The IESO recommends granting the exemption application.

Appendix A sets out the assessment and description of the exemption request, including a determination of which criteria are applicable to the *exemption application*.

Part 3 – Details of Assessment

Appendix A sets out the details of the assessment.

Part 4 – Terms and Conditions

Effective Date of *Exemption* (or event causing *exemption* to become effective):

Date of approval by Exemption Panel

Date of Expiration of *Exemption*:

- **If greater than 5 years, the Panel must be satisfied that the circumstances justify a later date.**

Circumstances which will cause the *exemption* to immediately expire.

The exemption will expire at the earlier of:

- 3 years after the effective date of the exemption; or
- if a Market Rule amendment comes into effect that addresses this concern.

Market rule(s) or related market manuals from which the *exemption* is granted.

The IESO will be exempted from the requirements in Market Rule Chapter 5, Section 4.3.1 and Chapter 7, Section 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.
Restrictions on the manner of operation and/or additional obligations to be met during the term of the <i>exemption</i>, if any.	<p>The IESO will ensure that facilities do not provide or receive compensation for regulation service until they meet all technical requirements in MR Ch 5 s.4, as well as any other requirements established by the Market Rules and Manuals.</p> <p>The IESO will endeavour to contract for regulation services with market participants with facilities that are best positioned to meet the technical and registration requirements to provide regulation services in a timely manner without significant capital expenditure.</p> <p>The IESO's procurement will be limited to the amount of regulation that is anticipated to be required during the term of the exemption. The 2025 Annual Planning Outlook (APO) identified a need for an additional ± 70 MW of regulation capacity in 2027 and 2028, and ± 100 MW in 2029. However, the 2026 APO, which is expected to be released at end of March, will confirm the actual amount of regulation service that will need to be procured.</p>
Monitoring information required: Information required to be provided by the <i>exemption applicant</i> for monitoring by the IESO.	N/A
Payment of Costs: <ul style="list-style-type: none"> • Processing costs (when introduced) • Incremental <i>exemption</i> costs <i>Settlement amounts to be withheld or repaid.</i>	N/A
Amendment:	N/A

<ul style="list-style-type: none"> • Where an <i>amendment</i> is being applied for to an existing <i>exemption</i>: <p>List the terms and conditions that require <i>amendment</i> and the proposed alternative language where applicable</p>	
<p>Reconsideration/Removal:</p> <ul style="list-style-type: none"> • Date on which the <i>exemption</i> will be reconsidered (if applicable). <p>Circumstances under which the <i>exemption</i> will be reconsidered (if applicable) other than unforeseen future change in circumstances.</p>	N/A
<p>Transferability:</p> <p>List the terms and conditions that need to be met to allow for a transfer of this <i>exemption</i> to be approved by <i>IESO</i> staff.</p>	N/A
<p>Other:</p>	N/A

Appendix A: Description and Assessment of Exemption Request

Requested Exemption

The IESO is seeking a temporary exemption from portions of Market Rule Chapter 5, section 4.3.1 and Market Rule Chapter 7, section 9.2.1 that limit it 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.

Rationale for Exemption

Growing need for regulation services

Regulation service is an ancillary service that supports the real-time balance of supply and demand on the power system. Because regulation service responds on a second-to-second basis, it plays a critical role in maintaining system reliability and overall grid stability.

The Market Rules require the IESO to comply with various reliability standards, including standards related to the amount of available regulation service. In recent years, these standards have required the IESO to schedule ± 100 MW of regulation service every hour. To date, this requirement has been met through three contracts with two suppliers.

However, as demand for electricity has grown the need for regulation service has also increased. Specifically, the 2025 Annual Planning Outlook identified a need for additional regulation capacity for the next decade, with ± 30 MW of additional regulation capacity starting in 2026, growing to ± 100 MW by 2029. The IESO is not able to meet this need with the

currently contracted regulation facilities and must find new market participants willing to provide regulation service.

Limited interest from market participants

In July 2025, the IESO held a stakeholder engagement to discuss the need for the additional regulation capacity and to assess participant interest in providing this service. Based on the feedback received from those who attended, the IESO determined that there was not sufficient interest to run a competitive procurement.

To try and resolve the projected regulation short fall, the IESO worked with an existing regulation service provider to obtain an additional ± 30 MW until April 30, 2026, with a possibility of extending this amount to the end of the year. The two existing suppliers were not able to provide any more regulation service, and the IESO must address the need for 2027 onwards.

As a result, the IESO reached out directly to some market participants with gas fired generators to gauge interest in providing regulation services. At least one market participant is interested in this opportunity, and discussions appear to be progressing well.

If this exemption is granted, the intention would be to pursue finalization of a contract with this participant soon so that they can begin the process of becoming an operational regulation service provider. IESO Staff expect this may take 12 to 18 months, as it involves procuring and installing new equipment, an expedited System Impact Assessment, registration of regulation-specific resource parameters, satisfying telemetry and communication requirements, establishing the regulation provider in EMS/DSO tools, resource tuning/calibration, performance validation and testing, and issuance of a new Registration Approval Notification. Because the process is lengthy and IESO's need for regulation services is acute, time is of the essence in moving forward with contract negotiations. At this point, the IESO cannot enter into a contract with this participant because their facility is not configured to provide regulation service.

Needed modernizations to the Market Rules

The existing Market Rules prohibit the IESO from contracting for ancillary services, including regulation services, with an ancillary services provider whose facilities or resources are not already in compliance with the technical requirements in MR Ch.5 s.4. Satisfying these technical requirements requires investment in specialized equipment that is only used to provide regulation services. This means that 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 very unlikely that the IESO will be able to find market participants willing to take on this risk.

The IESO is optimistic about the ongoing negotiations with a specific market participant. To facilitate the successful completion of those negotiations, it is imperative that the IESO has flexibility to enter into a contract for facilities that have not yet satisfied the technical requirements in MR Ch.5 s.4. that relate to regulation services.

Restrictions on contracting

While exercising this increased contracting flexibility, the IESO will ensure that contracted regulation service providers do not provide regulation service until they meet all required technical requirements in MR Ch.5 s.4, as well as any other requirements established by the Market Rules and Manuals.

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 to provide regulation services in a timely manner without significant capital expenditure.

The IESO's procurement will be limited to the amount of regulation that is anticipated to be required during the term of the exemption. The 2025 Annual Planning Outlook (APO) identified a need for an additional ± 70 MW of regulation capacity in 2027 and 2028, and ± 100 MW in

2029. However, the 2026 APO, which is expected to be released at end of March, will confirm the actual amount of regulation service that will need to be procured.

To address the long-term need for additional regulation service capacity, the IESO will seek a Market Rule amendment to address this matter.

Assessment of MM 2.2, section 3.2.4 criteria

The IESO has assessed the exemption application according to each of the criteria set out in Market Manual 2.2, section 3.2.4, and recommends granting the exemption.

Impact on the exemption applicant of complying with the applicable market rules

If required to comply with the existing Market Rules, the IESO would be unable to contract with any regulation service provider that has not already satisfied all technical requirements. The IESO is not aware of any new facilities or resources that currently meet these requirements, despite a demonstrated and growing need for additional regulation capacity.

As a result, compliance with the existing rules would leave the IESO with no viable mechanism to procure the regulation services required to meet forecasted system needs until a Market Rule amendment can be completed. This would delay necessary procurements and create, or exacerbate, a gap between required and available regulation capacity. While such a gap may be managed through control room interventions in the short term, reliance on operational mitigations over an extended period would materially increase reliability risks.

Impact on the IESO and other market participants of complying with the applicable market rules

Continued compliance with the existing Market Rules would likely prevent the IESO from securing additional regulation services and would impair its ability to meet evolving system

reliability requirements. In the near term, this would require increased and ongoing reliance on operational control room workarounds. Over the longer term, the inability to procure sufficient regulation capacity could prevent the IESO from complying with the Reliability Standards established by the North American Electric Reliability Corporation (NERC) and undermine the reliable operation of the IESO-controlled grid.

For market participants, the existing rules act as a barrier to entry by requiring upfront capital investment without contractual certainty, effectively discouraging participation even where facilities are technically capable of providing regulation service within a reasonable timeframe.

Impact of the exemption on the IESO's ability to direct operations and maintain reliability

Granting the exemption would have a positive and material impact on the IESO's ability to maintain the reliable operation of the IESO-controlled grid. The current circumstances are such that:

1. the IESO cannot contract with suppliers that have not yet met all technical requirements;
2. there is an immediate and long-term need to procure additional regulation services; and
3. the IESO is not aware of any uncontracted facilities that currently meet the applicable technical requirements.

The exemption would allow the IESO to enter into contracts with market participants in advance of full technical compliance, providing those participants with the certainty required to invest in the necessary upgrades. This, in turn, would enable the timely addition of regulation capacity and support continued compliance with the Reliability Standards.

Impact on non-discriminatory access to the IESO-controlled grid

Granting the exemption would not impact the IESO's ability to ensure non-discriminatory access to the IESO-controlled grid. All market participants with appropriate facilities could benefit from the IESO's expanded contracting flexibility for reliability services.

Impact on efficient, competitive, and reliable market operation

The exemption would enhance the efficiency and competitiveness of the IESO-administered markets by expanding the pool of potential regulation service providers. By enabling new entrants to participate where they are capable of meeting technical requirements following the installation of specialized equipment, the exemption promotes a more level playing field between incumbent and prospective providers. This also creates a new opportunity to earn revenue for existing market participants.

An expanded supplier pool would also support competitive pricing outcomes and reduce the risk of supply concentration, ultimately benefiting the market and ratepayers while supporting system reliability.

Impact on costs to the IESO and market participants

Granting the exemption would permit the IESO to enter into contracts for regulation services, the costs of which are recoverable from the market in accordance with the Market Rules. These costs would be incurred solely for the procurement of services required to maintain reliable operation of the IESO-controlled grid. Market participants may benefit from lower costs for regulation services due to increased competition.

Undue preference

The exemption would not provide the IESO or other market participants with any undue preference in the IESO-administered markets.

While the IESO is currently in discussions with specific potential providers, the exemption itself is not participant specific. The IESO remains open to engaging with any market participant that is capable of providing regulation service within the parameters of the exemption.

Existing regulation service providers would not be adversely affected, as the IESO has determined that current suppliers are unable to provide additional regulation capacity on a sustained basis.

Adequacy of the exemption plan

The IESO's exemption plan appropriately mitigates the consequences of non-compliance with the existing Market Rules by limiting the exemption to circumstances where suppliers can meet technical requirements in a timely manner without significant expenditure. It also limits procurement to the amount of regulation service currently required. Market participants would be required to meet all requirements prior to providing regulation services to the market.

In parallel, the IESO intends to pursue a Market Rule amendment to address the medium to long-term need for additional regulation capacity, which would eliminate the need for the exemption on a permanent basis.

Capability to ensure compliance with exemption terms and conditions

Not Applicable.

Appropriateness and enforceability of the proposed terms and conditions

The proposed terms and conditions are appropriately scoped, time-limited, and directly tied to the demonstrated need for additional regulation services. They limit procurement to the amount of regulation capacity anticipated to be required during the exemption period and ensure that no regulation service is provided or compensated until all technical requirements are satisfied.

Taken together, the terms strike an appropriate balance between providing necessary contracting flexibility while maintaining the integrity, reliability, and enforceability of the Market Rules framework.

Status of facilities at the time the relevant Market Rules came into force

At market opening, sufficient regulation capacity existed to meet system reliability needs on a long-term basis. The existing Market Rules, the relevant portions of which also were in effect on market opening, were appropriate at the time and were presumably intended to prevent the expenditure of capital costs when regulation capacity already existed.

However, system conditions have evolved significantly over the past 25 years, and projected demand growth has resulted in a material increase in regulation requirements that can no longer be met by existing facilities alone.

Other relevant considerations

Refer to the "Rationale for Exemption" section of this Appendix.