

2023 Capacity Sharing Agreement - Backgrounder

Ontario trades electricity with neighbouring jurisdictions as part of the regular operation of the wholesale electricity market. Imports provide operational and planning flexibility, enhancing the reliability and the cost-effectiveness of the electricity system as a whole.

Ontario and Quebec have complementary seasonal needs, with Quebec's peak demand occurring in the winter – due mostly to a substantial amount of electric heating - while Ontario's peak needs occur in the summer. This has played an important role in the efficiency of our trading relationship, both on a daily basis and through formal agreements.

According to [Hydro Quebec's Strategic Plan](#), Quebec is facing a situation similar to Ontario's, where economic growth and electrification are driving up demand, and new generation is needed mid- to late-decade. Like Ontario, Quebec is currently running procurements for new supply.

Ontario's Trading Relationship with Quebec

There are two ways in which the two provinces support each other's energy systems. First, Ontario and Quebec import and export energy on an hourly basis based on availability and price in the wholesale electricity market. Here imports help keep costs down by displacing other forms of more expensive supply.

In addition, firm imports/exports are traded through signed agreements for a specific amount in a given timeframe. For example, a 2015 Capacity Sharing Agreement saw Ontario provide 500 MW of capacity to Quebec in the winter of 2015/16. Ontario currently has a commitment from Quebec to return 500 MW of firm capacity for four months during a summer of the IESO's choosing.

Proposed 2023 Capacity Sharing Agreement

This spring, discussions began around the option of a capacity swap between the two jurisdictions during their peak demand seasons over a 10-year period.

IESO projections show that while Ontario has sufficient capacity to meet system needs through 2030 and support forecasted load growth in the province, this additional layer of reliability could provide a hedge against potential project delays, aging/retiring assets and adverse system events. Diversity of supply strengthens the resilience of the power system, and Ontario will have an assurance of an additional non-emitting option to complement its already low-emitting supply mix.

IESO and Quebec have set out their intention to negotiate a new Capacity Sharing Agreement in a Memorandum of Understanding (MOU). The agreement, if entered into, would work by promising the

delivery of energy to support system reliability for both provinces on days when tight conditions are expected on the grid. It would give system operators the assurance that the supply is available if needed, helping them to operate the system more efficiently.

Proposed terms of the agreement include:

- A straight swap of a minimum of 600 MW of capacity per season, without the standard capacity costs charged for ensuring supply will be available
- The option for the IESO to increase the minimum amount each year, and to bank any amount of the 600 MW for use in any future summer during the agreement

The agreement would likely begin in the winter 2024-2025 season and run to October 31, 2031 with an option for extension for an additional three years.

As an option for use only during tight conditions on the system, the swap will have no impact the targets of the IESO's upcoming Capacity Auction or Long-Term 1 procurements. The proposed agreement would simply secure a portion of that energy that is already imported on a daily basis, guaranteeing that a minimum 600 MW of supply will be available when needed most.

A Diversity of Options to Ensure Reliability

Ontario's system is evolving, including with the expansion of conservation programs and the ongoing enabling of innovation to support new forms of non-emitting supply. As the IESO continues to focus on ensuring that Ontario's electricity system is prepared for growing demand and the energy transition, collaboration with neighbouring jurisdictions becomes even more important.

The IESO's recent and upcoming competitive procurement activities are also adding to system diversity and reliability, including procuring the largest storage fleet in Canada. Looking forward, the IESO-HQ Interconnection Planning Committee will be discussing expansions of current interties and creating a new link, as well as other potential opportunities.