Memorandum

To: **The Markets Committee**

From: Michael Lyle, Executive Vice President, Legal Resources and Corporate Governance and Chair, IESO Technical Panel

Date: October 29, 2026

Re: Market Rule Amendment: 2026 Capacity Auction Enhancements (MR-00493-R00)

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Connecting Today.
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Independent Electricity System Operator
1600-120 Adelaide Street West
Toronto, ON M5H 1T1
t 416.967.7474
www.ieso.ca

Purpose of Item: Recommendation for approval to the Board

Executive Summary:

The IESO is seeking a recommendation for the Board to approve proposed market rule amendments (MR-00493-R00) related to the 2026 Capacity Auction Enhancements. The first proposed amendment is to the settlement application of the In-Period Cleared Unforced Capacity (UCAP) Adjustment Charge where a Notice of Disagreement is filed. The second proposed amendment is to the Emergency Activation Payment formula to adjust for an edge-case scenario that could result in an hourly demand response (HDR) resource not receiving an Emergency Activation Payments during a successful activation. At its September 15, 2026 meeting, the Technical Panel voted unanimously to recommend the proposed market rule amendments to the IESO Board. The IESO provided an education item to the Markets Committee on the proposed changes at its August 24th meeting.

Significant Issues, Risks and Opportunities:

Stakeholders have been supportive of this initiative as the intent of the amendment is to provide clarity and ensure that resources are provided with proper compensation when successfully activated.

Background:

In the IESO's Resource Adequacy Framework (the "Framework"), the Capacity Auction serves as the short-term balancing mechanism, helping to secure capacity needed to meet Ontario's resource adequacy needs. The Capacity Auction enables participation from a diverse range of resources that compete annually to be available for two six-month obligation periods (summer and winter).

Proposal and Analysis:

The first amendment pertains to cases where a Capacity Auction Resource files a Notice of Disagreement (NOD) in response to the IESO reducing their capacity obligation to 0 MW, following a capacity test and application of the UCAP adjustment. Because 1 MW is the minimum capacity permitted to participate in the IESO-administered markets, adjustments that would otherwise be below 1 MW are set to 0 MW, eliminating any payment to the Capacity Auction Resource for the obligation period and precluding their eligibility for participation in the subsequent auction. The amendment provides that where a NOD has been filed in such cases, the UCAP adjustment will not be implemented until after the NOD has been assessed.

The second amendment is a technical correction to the formula used to calculate Emergency Activation Payments to Capacity Auction Resources. In edge-cases where resources are scheduled for quantities beyond their capacity obligation, the existing formula could incorrectly calculate a delivered capacity value that would deny an Emergency Activation Payment, even where the resources provided the capacity. The change corrects this calculation.

The IESO held a stakeholder engagement session in May related to these rule amendments and corresponding changes to the market manuals. No concerns or suggested edits were raised. One set of comments was received from Vlad Urukov (generator representative) in response to the Technical Panel's call for stakeholder comments. The comments requested some clarifications on the changes, suggested edits to the amendment language, and requested an example of the in-period UCAP adjustment. The IESO presented an example of the in-period UCAP adjustment which provided clarification of the adjustment, and incorporated suggested edits to the market rules language.

Next Steps / Implementation:

I recommend that the Board accept the unanimous vote and recommendation of the Technical Panel to approve market rule amendment MR-00493-R00: 2026 Capacity Auction Enhancements.

Requested Committee Resolution:

The Markets Committee is asked to pass the following motion:

BE IT RESOLVED THAT the Markets Committee recommends that the Board of Directors approve the following resolution:

[Recommended Board Resolution Begins.]

CONCERNING MR-00493-R00: 2026 Capacity Auction Enhancements, which is a market rule amendment recommended by the IESO that will amend: (i) the settlement application of the In-Period UCAP Adjustment Charge where a notice of disagreement is filed, and (ii) the Emergency Activation Payment formula to adjust for an edge-case scenario that could result in an hourly demand response (HDR) resource receiving no Emergency Activation Payment during a successful activation.

a) **WHEREAS** the IESO engaged with the Technical Panel and the broader stakeholder community and have revised MR-00493-R00 based on feedback received.
b) **AND WHEREAS** the Technical Panel voted unanimously to recommend MR-00493-R00 for approval by the IESO Board.
c) **AND WHEREAS** the IESO Board of Directors' Markets Committee recommended MR-00493-R00, for approval by the IESO Board.

BE IT RESOLVED THAT on the recommendation of the Markets Committee, the IESO Board of Directors accepts the recommendation from the Technical Panel and approves MR-00493-R00: 2026 Capacity Auction Enhancements to come into effect on November 23, 2026.

Michael Lyle

Appendices:

a. Market Rule Amendment Proposal – MR-00493-R00: 2026 Capacity Auction Enhancements

b. Technical Panel Materials

   i. Memo to Technical Panel from IESO staff, dated September 8, 2026

   ii. Technical Panel Member Rationale, dated September 15, 2026

c. Summary of Stakeholder and Technical Panel Comments

d. Consumer Impact Assessment