

# Market Renewal Stakeholder Engagement

## I. Introduction

The IESO invites stakeholders to participate in and provide feedback on the development of a work plan for renewing Ontario's electricity market design. The work plan will set out specific market design changes to be implemented over the coming years and will define target timelines for completing the work. The plan will allow the IESO and stakeholders to address known challenges with our existing design while also laying a solid foundation for a more dynamic energy market to meet future needs.

This Stakeholder Engagement Plan outlines the background, objectives and proposed timelines related to this initiative as well as the activities and methods to be used to engage all interested stakeholders.

The IESO encourages all stakeholders in Ontario's electricity sector, or their representatives, with an interest in this initiative to participate in this engagement. This initiative will consider fundamental market design issues and changes; it will be of interest to all IESO market participants and related stakeholders.

This Stakeholder Engagement Plan may be subject to review and update as the process evolves, to ensure that stakeholders have the opportunity to contribute their input on this initiative.

Upon completion of the Market Renewal stakeholder engagement, subsequent engagements will be launched to implement the initiatives set out in the work plan.

All comments and enquiries in this stakeholder engagement can be directed to [engagement@ieso.ca](mailto:engagement@ieso.ca).

## II. Background

The IESO and others have identified the need to evolve Ontario's electricity market to address known market inefficiencies and to develop a more dynamic market place in the future.

Some of these inefficiencies were known at the time of original market design (pre-2002) and were intended to be addressed through planned evolution. Other inefficiencies have been identified through experience as the market has evolved in response to changing market conditions and transformational changes to Ontario's supply mix. These issues have been cited

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repeatedly by the Market Surveillance Panel as cause to re-evaluate the design of the electricity market.<sup>1</sup>

The IESO, working with stakeholders, has attempted make changes within the current framework to address some of these issues. In addition, and often in response to Market Surveillance Panel recommendations, the IESO has spent considerable time and resources in making numerous market rule amendments that often only partially mitigate some of the issues identified, given the design of Ontario's wholesale market.

Looking forward, while the wholesale markets have been able to accommodate major changes in the supply mix, it is not clear that the current design is optimal to meet future challenges.

- There is uncertainty over future needs and Ontario is about to embark on a major refurbishment of its nuclear fleet, raising questions on how best to meet Ontario's reliability and operability requirements.
- Significant advances in technology have opened the door to potential new resource providers.
- There are also underutilised assets in the province, both on the load and supply side.

An optimal market design would ensure all resources have the opportunity to compete to meet Ontario's system needs as they emerge while minimizing operational risks and maximising opportunities.

#### Electricity Market Forum and Stakeholder Reviews

In response to the operational challenges that arise under the current market design, the IESO established the Electricity Market Forum (EMF) in March 2011. The EMF found that although the electricity market generally worked well, there was considerable scope for improvement and changes were needed to re-orient a broader set of electricity market participants around supply and demand fundamentals<sup>2</sup>. In its final report the EMF found that the benefits of doing so could be significant with changes resulting in the potential savings of billions of dollars over the next twenty years. Following on from the work of the EMF, the IESO undertook a series of reviews to investigate potential areas of improvement, which confirmed many of the findings of the EMF.

The IESO has engaged with stakeholders on several market development initiatives that generally fall into one of two workstreams: energy-related issues and development of capacity as a separate, tradable product.

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<sup>1</sup> See Market Surveillance Panel Reports

<http://www.ontarioenergyboard.ca/OEB/Industry/About+the+OEB/Electricity+Market+Surveillance/Market+Surveillance+Panel+Reports>

<sup>2</sup> [http://www.ieso.ca/documents/consult/Market\\_Forum\\_Report.pdf](http://www.ieso.ca/documents/consult/Market_Forum_Report.pdf)

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## **Energy**

Over a two year period, the IESO undertook a series of reviews of several elements of Ontario's electricity market to investigate the efficiency of the current design and options for improvement. These included reviews of the [Hourly Ontario Energy Price two-schedule system](#), [generation guarantee programs](#) and [intertie schedule frequency](#). The IESO also previously investigated the potential of a financially-binding day-ahead market but ultimately determined that the two-schedule system design was too complex to support this undertaking.

## **Capacity**

Additionally, the IESO has investigated other longer-term market enhancement opportunities through the development of markets for capacity and enabling capacity trade. The IESO established the [Demand Response Auction](#) and is currently working with stakeholders on enabling [Capacity Exports](#). The IESO views this work as a precursor to the development of broader incremental capacity auction in the province.

These different market development initiatives have hitherto been conducted as separate engagements. The prioritization and sequencing of market development initiatives into a coherent, integrated plan is a key element of this engagement.

### **III. Interested Parties**

The IESO encourages all interested parties, or their representatives, with an interest in these matters to participate in this engagement.

### **IV. Engagement Goal, Objectives and Scope**

The goal of this engagement is to establish a market renewal work plan. The work plan will identify specific market design changes for implementation over the coming years and will identify target timelines for completing design and implementation work. The work plan is not intended to capture all market development efforts over the associated time horizon, since new challenges and opportunities can always arise and minor adjustments may also be required, but it will set out a clear agenda for the major market development initiatives the IESO and its stakeholders will undertake in the near future.

#### Market Renewal Work Plan

The proposed work plan for market renewal will target the larger structural inefficiencies related to the market's two-schedule system, day-ahead commitment and real-time commitment processes and the introduction of a capacity auction at the appropriate time. The work plan will focus on developing an implementation plan for the high value initiatives

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identified by the IESO, the Market Surveillance Panel and the EMF as well as other initiatives necessary to ensure the electricity market is well positioned to meet future needs efficiently.

Stakeholder feedback will be essential in prioritizing these potential design changes and identifying any further initiatives that should be included in the work plan. As part of the engagement the IESO will encourage stakeholders to bring forward their experiences in Ontario and elsewhere on the proposed changes and be willing to have a constructive discussion on how best to bring about change, taking into account the practical impacts any changes might incur.

Through this engagement, the IESO will seek feedback from stakeholders to help:

- Define the objectives and principles that will inform the development and implementation of the work plan;
- Identify the set of design changes to be included in the work plan; and
- Determine sequencing and timelines for the elements of the work plan.

The completed work plan will be underpinned by a business case and cost-benefit analysis which will proceed in parallel with this engagement.

## **V. Approach and Methods**

The implementation of this Engagement Plan will be in accordance with the IESO's approved [engagement principles](#).

This is a public engagement process. All materials will be posted on the IESO engagement page for this initiative. In addition, any information supplied by interested parties will be posted (with consent) to the designated engagement webpage.

The approach for this engagement initiative includes opportunities to provide input through various channels such as face-to-face meetings, webinars, information sessions, conference calls and/or written feedback. The IESO will consider all relevant input and illustrate how feedback was considered to shape the stated objectives.

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## VI. Engagement Schedule

Engagement Schedule	
Activity	Expected Date
Post and communicate draft Engagement Plan	March 21, 2016
Stakeholder Meeting –Overview of engagement draft Engagement Plan	April 2016
Feedback on Materials and Discussion from First Meeting and Draft Engagement Plan	TBC
Meeting #2	TBC
Additional Meetings/Information Sessions as Required	TBC

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