

Memorandum

To: Stakeholder Advisory Committee

From: JoAnne Butler, VP, Market and Resource Development

Date: August 10, 2016

Subject: IESO Business Update – Capacity Exports

The Capacity Exports engagement is intended to enable those capacity resources that are in excess of Ontario's needs to export their capacity. Capacity trade portends to offer several benefits to the sector. Enabling capacity exports:

- Provides Ontario based resources an opportunity to monetize capacity not required for Ontario reliability.
- Offers an alternative to facilities that would otherwise choose to idle or shut down due to Ontario market conditions.
- Improves the efficient utilisation of assets regionally.

The engagement includes two work-streams over different time horizons. In the short term, the IESO will support specific projects on a transitional basis. The key objective in this work-stream is to gain experience and lessons-learned that can be applied to a long-term design. To date, only one market participant has indicated their readiness with a specific project. Other participants have expressed an interest in principle and the IESO has made clear its willingness to meet and discuss specific projects at any time.

Over the longer-term, the IESO will work on enduring solutions to support broad participation; this work will be integrated as part of the Market Renewal project.

The IESO continues working towards putting in place the necessary processes, systems, documentation and agreements to enable Ontario-based resources to export their capacity to the extent that it is in excess of Ontario's planned resource adequacy. As such, the IESO is currently

working on a 'straw man' design to facilitate capacity exports in the near term. As details of this design take shape, the IESO will facilitate proposed amendments to the existing market rules.

Based on stakeholder feedback, the design is initially focused on supporting capacity exports to New York and Québec. Market participants who secure a position to export capacity will be limited to agreements of one year or less. The quantity of capacity released for capacity export will be strictly limited to ensure that all IESO reliability obligations and standards are satisfied. These limitations with respect to jurisdiction, quantity and duration are necessary to assist the IESO in understanding the operational implications of capacity exports on a limited scale before investing in a fuller implementation. The 'straw man' design will also include a proposed authorization process as well procedures for how the IESO may handle multiple requests in a fair and efficient manner.

Learnings from the Capacity Exports initiative are expected to inform the development of an incremental capacity auction for Ontario. Future incremental capacity auctions in Ontario may allow for imported capacity to meet Ontario's needs; as such having the capability to export capacity in place prior to the implementation of a capacity auction will allow the IESO and market participants to learn more about capacity exchange.