Memorandum

To: **The Markets Committee**

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

Date: October 23, 2025

Re: Capacity Auction Tie-break methodology (MR-00488-R00)

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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 amendment (MR-00488-R00) that will introduce a more equitable tie-break solution into the Capacity Auction clearing optimization. At its October 7, 2025 meeting, the Technical Panel voted unanimously (with one abstention due to absence) to recommend the proposed market rule amendment to the IESO Board.

Significant Issues, Risks and Opportunities:

Stakeholders have actively pushed for the IESO to implement these proposed changes to the tie-break methodology. In recent years, some stakeholders have raised concerns about the current tie-break methodology results in certain Capacity Auction participants being effectively shut out of the auction, which brings the risk of those capacity market participants potentially exiting the market. This proposed market rule amendment will result is more equitable distribution of capacity among competitors and promote increased competition in the market.

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:

Under the Capacity Auction, a tie-break is required when two or more offer laminations are submitted at the same price for the last available quantity of capacity. This is increasingly prevalent in virtually constrained zones. In these instances, a set of criteria must be used to determine how the capacity is awarded to tied offers. Currently, capacity is awarded to the tied offer with the earliest time stamp. If capacity remains, the offer with the next earliest time stamp is awarded the remaining capacity. This continues until all capacity is awarded.

The IESO is proposing a revised tie-break methodology to address fairness concerns with the current approach, which prioritizes offers based solely on submission time stamps. The new methodology introduces a multi-step process to more equitably allocate capacity among tied offers:

<u>Step 1 – Equal Share Allocation</u>

- Divide the remaining available (tied) auction capacity by the number of capacity auction offer laminations involved in the tie.
- Round down to one decimal place and allot this equal share of auction capacity to resources (where possible).
- Offers can be flagged as "full" or "partial" by participants. Offers flagged "full" must be fully satisfied in step 1.

<u>Step 2 – Proportional Allocation</u>

- For auction capacity remaining after Step 1, allot a proportional share to each partial capacity auction offer lamination that was not fully satisfied in Step 1.

Step 3 – Time Stamp Ranking

- For auction capacity remaining after Step 2, allot by time stamp rank.

Minimum Capacity Threshold

- If one or more resources are allotted less than 1 MW:
  - Eliminate the offer with the lowest awarded amount.
  - If tied, eliminate the one with the latest time stamp.
  - Repeat allocation steps.

Constraint Management

- If constraints are violated:
  - Allocate based on the constraint with the least remaining capacity.
  - Restart allocation for remaining capacity.

At the October 7, 2025 Technical Panel meeting, the Technical Panel members voted unanimously to recommend the proposed market rules for adoption by the IESO Board. All Technical Panel materials including stakeholder feedback submissions and meeting minutes are available on the Technical Panel webpage.

Next Steps / Implementation:

I recommend that the Board accept the unanimous vote and recommendation of the Technical Panel to approve market rule amendment MR-00488-R00: Capacity Auction Tie-break.

Recommendation:

The Committee is asked to approve 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-00488-R00: Capacity Auction Tie-Break Methodology, which is a market rule amendment recommended by the IESO that will introduce a more equitable tie-break solution into the Capacity Auction clearing optimization.

a) **WHEREAS** the IESO engaged with stakeholders and the Technical Panel and incorporated their suggestions into MR-00488-R00;
b) **WHEREAS** the Technical Panel unanimously recommends MR-00488-R00 for approval by the IESO Board of Directors; and
c) **WHEREAS** the IESO Board of Directors' Markets Committee recommended MR-00488-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-00488-R00: Capacity Auction Tie-Break Methodology to come into effect on November 17, 2025.

Michael Lyle
Cc: IESO Records
Encls.
a. Market Rule Amendment Proposal form
b. Technical Panel Materials
 i. Memo to Technical Panel from IESO staff
 ii. Technical Panel Member Rationale
c. Summary of Stakeholder and Technical Panel Comments
d. Consumer Impact Assessment