

Market Renewal Key Messages and Q&As

Key Messages

- Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.
- Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel, IESO studies, and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.
- Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.
- Market Renewal is a collaborative effort between the IESO and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies and lay a foundation that will prepare us for the electricity sector of tomorrow. A comprehensive stakeholder engagement strategy will ensure stakeholders have an opportunity to provide input every step of the way.
- Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a market design tailored to our province's needs.
- The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources, and a more flexible procurement process that will better reflect system needs.

1. When will Market Renewal be complete?

The IESO will be educating and working with stakeholders on the key design concepts for the various initiatives throughout 2017. Timelines beyond 2017 have yet to be finalized and are subject to change based on design and implementation decisions to be made with stakeholders.

2. When will consumers start realizing the savings from Market Renewal?

The IESO will be educating and working with stakeholders on the key design concepts for the various initiatives throughout 2017. Timelines beyond 2017 have yet to be finalized and are subject to change based on design and implementation decisions to be made with stakeholders. The IESO will have a better understanding of the timing of consumer benefits once some of these decisions have been made.

3. The presentation given at yesterday's SAC meeting suggested Market Renewal will achieve a savings of \$3 billion to consumers. How will these savings be realized?

Early findings show potential for cost savings that are expected to be realized by both consumers and suppliers, with a preliminary baseline estimate of \$3.7 billion (net present value) over a ten year period from 2021-2030.

These savings represent a net efficiency benefit, meaning the total commodity cost of electricity (ie. energy, Global Adjustment and uplifts) is reduced by that amount. The majority of savings are expected to flow to consumers, while the rest would flow to other market participants.

Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources, and a more flexible procurement process that will better reflect system needs.

Over half of the expected benefits are attributable to lower capacity costs from the introduction of a capacity auction while the remainder comes from lower production costs through the energy and operability work streams.

The exact timing and magnitude of cost savings will largely depend on the timing of Market Renewal initiatives.

4. What do stakeholders mean when they say they want less political interference?

Stakeholders and their investors have expressed that they want some certainty when making business decisions. Market Renewal will include evolving the wholesale electricity market and adopting new procurement practices through the introduction of an incremental capacity

auction to competitively and efficiently acquire resources. Stakeholders have suggested that they are seeking long term certainty in the use of a capacity auction mechanism as they make investment decisions.

At the same time, annual auctions provide greater flexibility in meeting system needs and help avoid the cost and risk of locking in resources for extensive periods when they might not be required.

5. Have the government's procurement methods under the Green Energy Act been a failure?

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6. Why hasn't the IESO implemented Market Renewal / capacity auctions sooner?

Since Ontario's electricity market opened in 2002, the sector has worked together to address some of the issues with the initial design. But the work of the Market Surveillance Panel, the Electricity Market Forum, past IESO studies and stakeholder input has made it clear that more band-aids aren't the answer – it's time to address the fundamentals.

The IESO recently introduced an annual demand response auctions – which is really a precursor to a capacity auctions. The IESO worked with demand response providers to transition them from contracts into the market to help drive down costs and better integrate demand response into our resource mix. The first auction took place in 2015 and was a very successful, with great participation and low-cost results. The prices for the second auction in 2016 were 12 to 17 percent lower than those achieved in 2015.

Proponents included high-volume, transmission-connected industrial, commercial and institutional users, as well as local distribution companies and consumers whose facilities are connected to low-voltage distribution systems and whose contributions are managed by an aggregator.

For the first time, residential homeowners, participating through an aggregator were eligible to take part in the auction and were successful in being selected.

7. Is Market Renewal the result of government direction?

Market Renewal is an IESO initiative to prepare Ontario for the electricity sector of tomorrow. To accomplish this, the IESO and its stakeholders are pursuing fundamental and enduring

changes to Ontario's electricity market that will address known inefficiencies and put downward pressure on electricity costs.

Background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel, IESO studies, and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

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8. What are the inefficiencies with the current electricity system?

Inefficiencies with the current market have been identified over the years through the work of the Market Surveillance Panel, the Electricity Market Forum, IESO studies, and stakeholder input. While the IESO and its stakeholders have worked together over the last decade to incrementally improve different aspects of the market, it is apparent that more foundational market changes are necessary to meet the very different circumstances of today and tomorrow's electricity marketplace.

The nature of these inefficiencies varies but most stem from how we currently commit resources. Inefficiencies will be addressed through changes to how we commit resources in the day-ahead and real-time timeframes, as well as through competitive capacity auctions and by addressing emerging operability needs.

9. What is the cost of Market Renewal?

The benefits case for Market Renewal is still under development. However, early findings estimate that the cost of implementing Market Renewal could be around \$150-200 million, which would yield a net benefit of around \$3.5 billion from 2021-2030. These estimates are preliminary and subject to change based on design and implementation decisions that have yet to be made with stakeholders.