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 distributed resources like wind and solar, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

- These and other investments in existing generation, like nuclear and hydro, mean that Ontario is now in a stable supply situation that is expected to continue until the beginning of the next decade, making this an opportune time to ensure the province has an efficient, cost-effective and reliable energy system.

- Market Renewal is a collaborative effort between the IESO and sector participants, including consumers, 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.

- The project will result in more efficient scheduling of generators to meet demand, the introduction of annual capacity auctions to procure resources more competitively and flexibly, and changes to help meet emerging operability needs, such as more frequent scheduling of energy imports and exports.

- The draft Market Renewal benefits case shows potential for cost savings that will be realized by both consumers and generators. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced or deferred need to build new resources, and a more flexible procurement process that will better reflect system needs.

Examples of Market Renewal

1. **Market Renewal will change how we procure resources by replacing long-term contracting with annual capacity auctions.**
   - Annual capacity auctions will be technology-neutral and allow all resources to compete on a level playing field, resulting in the lowest cost solutions to meet Ontario`s electricity needs.
   - Procuring resources on a shorter-term basis provides more flexibility in meeting Ontario's electricity needs and could help avoid or defer the need for building new resources.
   - Ontario is currently in a stable supply situation that is expected to continue into the early 2020s. Capacity auctions will secure Ontario`s future incremental capacity needs when they materialize around this time.

2. **Market Renewal will result in market prices that reflect some system costs that are currently paid out-of-market.**
    - Currently, some costs are reflected in out-of-market payments that the IESO makes to generators and some large consumers.
    - For example, if the transmission lines in an area are at capacity, preventing a generator from producing energy, this generator would receive out-of-market compensation if it would have otherwise been scheduled to produce.
    - Market Renewal would have resources factor certain cost information--in this case transmission line limitations—into their electricity market offers and bids.
    - Having more system costs reflected in the market—which faces downward pressure from competing bids and offers—will result in cost savings for ratepayers.

3. **Market Renewal will change how we schedule resources, like generators, to commit more resources day-ahead, creating more certainty as we move into real-time and stabilizing market prices.**
    - In the current market, the IESO must balance large amounts of supply and demand within short timeframes, which can result in over- or under-committing resources as system conditions change.
    - With a day-ahead market, the IESO and suppliers would have more certainty as we move into real-time, creating more stability in the market.
    - Locking in more resources day-ahead gives them more time to plan their operations and purchase fuel, reducing operational costs, which would subsequently help reduce market prices.
    - Having this certainty and stability reduces volatility and creates cost savings that add up over time.

Attempt at an analogy…

- It`s like driving in fog vs. driving with a clear path ahead. When you can't see that far ahead, you might slow down or swerve to meet sudden obstacles, resulting in a less efficient or less stable ride. Our electricity market works the same way as the car in this example. A day-ahead market allows us to plan farther ahead, giving us a clearer picture of what's ahead and allowing us to operate our market more efficiently.

4. **Market Renewal will acquire more operational flexibility to address an evolving supply mix.**

- Increasing variable generation, integration of distributed energy resources, and changing demand and supply patterns are creating new operating challenges in managing the bulk power system.
- The IESO has identified an emerging need for the ability to schedule resources capable of responding within a short time frame in order to manage forecast uncertainty in the real-time energy market.
- Market Renewal will look at increasing the frequency of energy imports and exports to create more flexibility to meet fluctuations in supply and demand.