



August 20, 2020

Mr. Robert Dodds  
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Dear Mr. Dodds:

### **RE: Market Surveillance Panel Monitoring Report**

I am writing in response to your letter of July 21, 2020 requesting that I advise you of: a) the steps that the Independent Electricity System Operator (IESO) plans to take in response to the recommendation made in the Market Surveillance Panel (“MSP” or “Panel”) *Monitoring Report on the IESO-Administered Electricity Markets for the period from November 1, 2017 to April 30, 2018*, and the timelines for completion of those steps; and b) in the IESO’s view, whether any actions or market rule amendments should be taken or initiated in addition to those reflected in the MSP recommendations.

The MSP’s report included one recommendation to the IESO, which is addressed below.

#### Interim Flexibility Solution

*Recommendation 3-2, MSP Monitoring Report for November 1, 2017 – April 30, 2018*

*In order to provide more consistent market outcomes, the IESO should give further consideration to improving how the need for additional system flexibility is addressed, such as specifying the conditions that require intervention and scheduling the required amount of spinning reserve explicitly in the normal OR market. Although it is acknowledged that no industry standard exists to address flexibility, alternative solutions should also be considered to ensure the most suitable approach is used.*

Although no industry-standard approach exists to address system flexibility using market mechanisms, the IESO has looked at various approaches from other jurisdictions and believes it is on the right track to address system flexibility needs. Since May 24, 2018, the IESO has been explicitly increasing operating reserve (OR) requirements in the current OR market when the need for flexibility arises. OR is scheduled in the market on an economic basis and co-optimized

with energy – as such, increasing OR requirements when the need for flexibility arises is a direct way to provide consistent market outcomes.

In comparison to the previous IESO practice of manually committing resources for flexibility, scheduling additional OR provides a transparent signal to the market when there is a flexibility need anticipated, and moreover, this need is addressed on an economic basis through a market-based solution. Initial assessments of the current flexibility solution were presented to the Market Development Advisory Group at the June 27, 2019 meeting, indicating that the solution results in significant savings in comparison to past practices to meet system flexibility requirements.

The IESO agrees with the MSP that it is important to consider improvements to the existing solution and to assess alternative solutions. The IESO has started a review of the existing solution which includes reassessing the criteria utilized for increasing OR for flexibility and, if needed, further clarifying the conditions under which additional flexibility is required.

In addition to the review that is underway, the Market Renewal Program – Energy project implementation includes changes that will further increase the transparency and efficiency of the flexibility solution where additional OR is scheduled to address flexibility needs. The improvements include specifying the flexibility need in the day-ahead timeframe and better optimization in the pre-dispatch timeframe should resources need to be economically committed for flexibility.

The IESO agrees with the Panel on the need to do a fulsome review of the current solution and will consider when that review can be completed and update the Panel by Q4 2020.

#### Ontario Energy Board (OEB) Question

With respect to the OEB's question on whether any actions or market rule amendments should be taken or initiated in addition to those reflected in the MSP's recommendation, the IESO has not at this time identified any additional actions or market rule amendments that should be taken or initiated related to the recommendation.

Should you have any additional questions on these matters, please do not hesitate to contact me at 416-969-6007 or by email at [peter.gregg@ieso.ca](mailto:peter.gregg@ieso.ca).

Yours truly,



Peter Gregg  
President & CEO

cc: Glenn Leslie, Chair, Market Surveillance Panel