

Ministry of Energy

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APR 22 2015

MC-2014-904

Mr. Bruce Campbell
President and Chief Executive Officer
Independent Electricity System Operator
1600–120 Adelaide Street West
Toronto ON M5H 1T1

Dear Mr. Campbell:

RE: Procurements

I write in my capacity as the Minister of Energy in order to exercise the statutory power of ministerial direction I have in respect of the Independent Electricity System Operator (“IESO”) under the *Electricity Act, 1998* (the “Act”).

Background

Our Government has made significant progress in continuing to transform our electricity system since the release of the 2013 Long-Term Energy Plan (“2013 LTEP”). Procurements launched under the 2013 LTEP include:

- Combined Heat and Power Standard Offer Program 2.0 (“CHPSOP 2.0”);
- Large Renewable Procurement (“LRP”);
- Hydroelectric Standard Offer Program (“HESOP”); and
- Energy Storage.

The 2013 LTEP also contemplated the possibility of clean imports from jurisdictions such as Quebec, where such imports would have system benefits for Ontario and be cost effective for Ontario ratepayers.

The IESO has been instrumental in supporting the Ontario and Québec Governments’ efforts to strengthen Ontario-Québec regional economic co-operation, including enhancing electricity trade.

These efforts led to the IESO signing of a Memorandum of Understanding (“MOU”) with HQ Energy Marketing Inc. (“HQEM”), endorsed by Ontario and Québec at a November 2014 joint Cabinet meeting, which sets out the basis for an agreement for a seasonal electricity capacity sharing agreement to help make power more affordable and reliable in each Province. Further, at the joint Cabinet meeting, the two Governments agreed to explore other opportunities to work together, including exploring the potential for agreements related to the provision of energy, capacity, regulation, black start and operating reserve from clean energy sources located in Québec (“Electricity Products”).

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In addition, the Government has indicated an interest in pursuing similar opportunities to procure such Electricity Products from other registered Ontario market participants registered as generators through their generation facilities in Québec ("Market Participants").

At this time, due to the province's positive supply outlook, the IESO is well-positioned to review the outcomes of recent procurements in order to incorporate lessons learned, as well as re-evaluate system needs, prior to proceeding with additional procurements.

Ontario must also continue to engage with municipalities and stakeholders, to ensure that local needs and siting considerations are taken into account for new generation projects.

The timing of this review will allow the IESO to take into account the transition to market based procurement as envisioned in the 2013 LTEP and the introduction of new, innovative technologies such as those being evaluated through the current 50 MW storage procurement.

Direction

Therefore, pursuant to my authority under section 25.32 of the Act, I hereby direct the IESO to undertake the following:

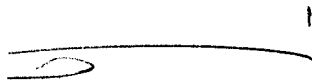
1. Negotiate and enter into a seasonal capacity sharing agreement with HQEM, based on the arrangement outlined in the MOU between the IESO and HQEM dated November 21, 2014, with such changes the IESO determines are reasonable and which agreement is aligned with Ontario electricity system needs. The IESO will endeavour to have the agreement finalized by June 1, 2015.
2. Investigate other opportunities to obtain Electricity Products from Hydro-Québec, and from other Market Participants, where the Electricity Products could be obtained on terms that would benefit and align with Ontario electricity system needs.
3. Report back to the Minister of Energy on the assessment of the framework for non-utility generators ("NUG") contracting, as outlined in the December 19, 2014 NUG direction to the IESO, by September 1, 2015 (modified from July 1, 2015) which will allow for the NUG report to include results and lessons learned from the initial CHPSOP 2.0 contract awards as well as recommendations for a future CHPSOP 2.0 application window.
4. Postpone the second application window of CHPSOP 2.0 until such time as further Minister's direction is provided.
5. Engage with stakeholders, municipalities and Aboriginal communities at the completion of the LRP I procurement to ensure that any learnings and opportunities for improvement derived from the evaluation of the LRP I process, including learnings on the enablement of energy storage, are taken into account in subsequent LRP procurement(s). The Request for Qualifications ("RFQ") for LRP II shall not be issued before the conclusion of the engagement process.

6. The IESO should review the outcomes of the 50 MW energy storage procurement and incorporate resulting learnings, along with any other relevant analyses or new knowledge, into a March 1, 2016 report back to the Ministry of Energy on options for integration of energy storage into Ontario's electricity market and market based procurements, as deemed appropriate based on system need.

This direction supplements or amends previous directions only to the extent that a particular provision of this direction is inconsistent with the provisions of a previous direction. All other terms of any previous direction remain in full force and effect.

This direction takes effect on the date issued.

Sincerely,



Bob Chiarelli
Minister

- c: James D. Hinds, Chair, Independent Electricity System Operator
Serge Imbrogno, Deputy Minister, Ministry of Energy
Carolyn Calwell, Director, Legal Services Branch, Ministry of Energy, MEDEI/MRI