

Ministry of Energy

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MC-994-2023-539

July 10, 2023

Ms Lesley Gallinger
President and Chief Executive Officer
Independent Electricity System Operator
1600—120 Adelaide Street West
Toronto ON
M5H 1P1

Dear Ms Gallinger:

I would like to thank you and your team at the Independent Electricity System Operator (IESO) for your continued efforts on designing and implementing resource procurement mechanisms under IESO's Resource Adequacy Framework, and for meaningfully engaging with stakeholders and communities to incorporate their feedback.

I would also like to thank IESO for your report back, dated January 31, 2023, on the Gate 2 Assessment of three Pumped Storage (PS) proposals submitted under the Unsolicited Proposals Process (UPP).

The UPP was developed by ENERGY and IESO at a time when IESO's Resource Adequacy Framework (RAF) was still under development, and there needed to be an alternative process to evaluate the costs and system benefits of the multiple large-scale energy projects that were being proposed at the time.

Since launching the RAF, IESO has successfully completed the First Medium Term Request for Proposals, the Expedited RFP and the Same Technology Upgrades solicitation, contracted the Oneida Energy Storage Project and re-contracted Calstock Generating Station (GS), Chapleau GS and Brighton Beach GS.

Considering the success of the RAF, I believe that the UPP is no longer a necessary mechanism to evaluate energy project proposals, and as such, if IESO were to conclude that the UPP should be discontinued, I would be supportive of that decision.

Based on the results of IESO's Gate 2 analysis, evolving system needs and policy developments, I also ask that IESO conduct another cost-benefit analysis of two PS proposals, namely, TC Energy and the Saugeen Ojibway Nation's Ontario PS project and Ontario Power Generation and Northland Power's Marmora PS project, to ascertain if any of these two projects would provide positive value to the electricity system.

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The analysis should be performed with the active participation of the proponents in a collaborative process, using the following updated assumptions:

1. Update the proxy resource from a new build simple cycle natural gas facility to a portfolio-based approach that appropriately values non-emitting capacity, energy and operability provided by facilities;
2. Consider a scenario where there is no new gas-fired generation beyond current procurements (i.e., the Expedited RFP, Same Technology Upgrades and LT1 RFP) and include forecast carbon pricing policies in the analysis;
3. Confirm the ratepayer benefits from the inclusion of federal Investment Tax Credits and any commitments from the Canada Infrastructure Bank for financing of these projects;
4. Develop scenarios that anticipate incremental nuclear capacity in the future;
5. Evaluate the projects on a common timeframe consistent with the expected life of the assets to allow for an objective comparison of project costs and benefits; and
6. Consider the estimated cost of transmission reinforcements needed for the projects.

In conjunction with its report back on the cost-benefit analysis of the two PS proposals, I would also ask that IESO request from the proponent and share back with me the following items:

1. Confirmation of Indigenous participation and/or support for these projects including any commitments or agreements with communities;
2. Confirmation of support of the host municipality for these projects including any council resolutions;
3. Project plan for achieving all necessary permits, approvals and permissions; and
4. Project delivery risk assessment and mitigations.

I ask that IESO report back to me with its cost-benefit analysis and additional items noted above on the two PS proposals **by September 30, 2023**.

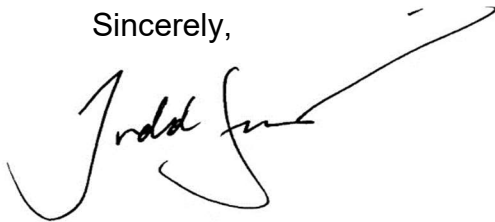
Should the results of IESO's updated analysis show a potential benefit to Ontario electricity consumers and I am satisfied with IESO report back on one or both of the PS proposals, the government would make a determination on these projects **by November 30, 2023**. This decision will be informed by consultations on Ontario's Regulatory Registry and the Environmental Registry of Ontario, to be launched in June 2023, on a regulatory framework to allow for the rate regulation of long-duration storage projects.

If this proposal receives the required approvals, I expect that IESO will participate in the rate regulation process for the project(s) and provide supporting information to enable the project(s) to be operated in an optimized manner to provide electricity products and services that provide maximum benefit to the electricity system.

In the future, should IESO identify a need for additional long-duration storage, I will consider launching a new competitive process for evaluating and possibly acquiring additional long-duration storage projects. In preparation I ask that the IESO consult with long-duration storage proponents on a potential procurement for resources with long lead times and long lifespans.

Thank you again and please accept my best wishes.

Sincerely,

A handwritten signature in black ink, appearing to read 'Todd Smith', with a long, sweeping horizontal line extending to the right.

Todd Smith
Minister

- c: François Poirier, President and Chief Executive Officer, TC Energy
- Chief Conrad Ritchie, Chippewas of Saugeen First Nation
- Chief Veronica Smith, Chippewas of Nawash Unceded First Nation
- Ken Hartwick, President and Chief Executive Officer, Ontario Power Generation
- Mike Crawley, President and Chief Executive Officer, Northland Power
- Susanna Zagar, Chief Executive Officer, Ontario Energy Board
- Jason Fitzsimmons, Deputy Minister, Ministry of Energy