

**Ministry of Energy
and Electrification**

Office of the Minister

77 Grenville Street, 10th Floor
Toronto ON M7A 2C1
Tel.: 416-327-6758

**Ministère de l'Énergie
et de l'Électrification**

Bureau du ministre

77, rue Grenville, 10^e étage
Toronto ON M7A 2C1
Tél. : 416-327-6758



MC-994-2024-600

August 28, 2024

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

Dear Ms Gallinger:

Ontario's clean electricity grid has positioned our government to attract historic economic investments, including those made by electric vehicle and battery manufacturers, as well as the green steel industry. These investments, coupled with electrification and population growth, have seen electricity demand rise for the first time since 2005. At the same time, refurbishment schedules at Ontario's nuclear facilities and expiring electricity supply and capacity contracts mean that additional electricity resources will be required to meet Ontario's growing needs.

Our government's foremost priority is providing affordable energy to Ontarians. To ensure this, while also continuing to attract new investments, the government is committed to a procurement framework, as announced in our government's Powering Ontario's Growth plan. It's critical that the procurement is delivered with urgency, and builds on Ontario's clean energy advantage to achieve an expanded clean, reliable and affordable electricity system. These resources should be secured through a series of competitive procurements that are transparent, cost-effective and aligned with broader government goals.

I would like to thank you and your team at the Independent Electricity System Operator (IESO) for your continued efforts on designing the upcoming second Long-Term Procurement (LT2) and future procurements to follow, and for meaningfully engaging with stakeholders and communities to incorporate their feedback in your recommended procurement design.

I would also like to thank the IESO for your report-back on the IESO's Resource Adequacy Procurements, dated March 15, 2024, on the policy direction needed to ensure timely procurement of new resources to meet emerging electricity system needs by the end of the decade.

.../cont'd

Report-back on LT2:

The IESO has recommended a series approach to the competitive procurements of 5,000 megawatts of new energy producing resources by 2034. As forecasts indicate Ontario's electricity demand could continue to rise sharply due to growth in several sectors, including digital services and artificial intelligence, I ask the IESO to report back to me by **September 20, 2024** on options with accelerated final targets, timelines and design elements of the LT2 for energy and capacity procurements, as well as the procurement of resources requiring longer development lead times. In this exercise, the IESO should work with stakeholders to consider how the procurement can be accelerated and concluded by February 28, 2026. The targets should consider the supply needed to power Ontario's economic growth.

The IESO should continue its engagements, including with municipalities and Indigenous communities, to inform its report-back.

The report-back should reflect the expectation that all upcoming procurements are designed in line with the following policy considerations.

Policy considerations to be contained in the IESO report-back:

A letter dated June 6, 2024, issued by Ministers Smith and Thompson, outlined our government's expectations for protecting prime agricultural areas. After accepting my appointment as Minister of Energy and Electrification, Minister Flack and I enhanced these expectations by securing the support of the Ontario Federation of Agriculture (OFA) as well as the Association of Municipalities of Ontario (AMO). I want to reiterate my support for these protections, and I am writing to outline my expectations regarding additional policies that should be reflected in the IESO's LT2 design.

- Recognizing the emerging energy needs and scale of resources required to meet these needs, I expect the IESO to report back on an approach that is technology agnostic to ensure the province can procure the resources required at a competitive price.
- I expect the IESO's report to reflect our government's firm position that no project will be built without a supportive municipal council resolution by the time of proposal submission. This includes projects built on Crown land within an organized municipality.
- To contribute to economic activity in Northern Ontario, and as transmission constraints in LT1 largely restricted development in these regions, the IESO should consider providing rated criteria points for new projects within the collective territorial Districts of Kenora, Rainy River, Thunder Bay, Cochrane, Algoma, Sudbury, Timiskaming, Nipissing, Manitoulin and Parry Sound.

.../cont'd

- For project proposals outside of municipal boundaries and on Crown land managed by MNR I expect the IESO's report to reflect an approach that accepts MNR's endorsement of a proponent's Crown Land Site Report in lieu of a MSR as confirmation that the lands are eligible for bid submission.
- The IESO should build on the success of the IESO's Expedited Long-Term Request for Proposals (RFP) (E-LT1) and first Long-Term RFP (LT1), which resulted in the majority of selected energy storage projects having Indigenous equity participation. With that, I expect the IESO to continue to incorporate rated criteria that incentivize economic opportunities for Indigenous Communities including where projects are proposed on treaty or traditional territories.
- To ensure that procured resources are cost-optimized and meaningfully contribute to meeting the province's energy needs, without threatening system reliability, I expect the IESO to include a deliverability treatment for the LT2 energy and capacity proposal evaluation process in its report-back.
- The IESO should report back on final LT2 design recommendations that consider the policies outlined above as well as other relevant advice and analysis including on the scale and timing of the LT2 procurements considering the supply needed to power Ontario's growth.

To help facilitate a cost-effective and efficient market operation of new energy projects, I support the IESO's use of its new Enhanced Power Purchase Agreement (EPPA) revenue model, as broadly described in the March 2024 report, for energy resource procurements. For capacity procurements, it is my expectation that the IESO would continue to utilize the capacity contract, substantially, in the form used for the LT1 procurement.

To ensure that the results of LT2 support the expected energy and capacity needs of the Province, I expect that the report-back contemplate the LT2 being launched after receipt of a directive, where government determines that issuing a directive is appropriate, and that the report reflect that the IESO would endeavour to conclude the procurement process before **February 28, 2026**.

ENERGY will continue to work collaboratively with the IESO and applicable ministries to align procurement rules and timelines with government review and approval processes to the extent possible. I appreciate the IESO's ongoing engagement in these multi-ministry discussions and I expect the IESO will continue to provide timely information to ministries to support their roles in this regard.

I ask that the IESO provide the report-back no later than **September 20, 2024**. Upon receiving the IESO's response on this initiative, the government will determine the most appropriate next steps.

.../cont'd

Please accept my sincere gratitude for the IESO's ongoing leadership and engagement with stakeholders and communities to ensure the reliability and affordability of Ontario's electricity system, and for your ongoing support as we develop the approach to LT2.

Sincerely,

A handwritten signature in blue ink, appearing to read "Lecce", with a long horizontal flourish extending to the right.

Stephen Lecce
Minister

c: William (Bill) Sheffield, Board Chair, IESO
Matt Hiraishi, Chief of Staff to the Minister of Energy and Electrification
Susanna Laaksonen-Craig, Deputy Minister of Energy and Electrification