

Ministry of Energy

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MC-994-2022-789

October 5, 2022

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 report regarding a potential program to provide new contracts for existing small hydroelectric generation facilities (i.e., facilities with a capacity of under 10 MW) (the Program).

Ontario's small hydroelectric fleet plays an important role, both in generating electricity and providing benefits such as recreational opportunities, flood control, irrigation, tourism and supporting local employment and economic development. Our government is committed to ensuring the province is making best use of these existing non-emitting assets.

I am pleased to see that over the past few months, IESO has made significant progress in developing a detailed design for the Program. I am aware that IESO has undertaken extensive stakeholder engagement on the Program since March 2022 and has incorporated feedback from stakeholders in the latest detailed design.

I am asking IESO to continue engaging with stakeholders and to submit a report back to me which includes draft Program rules and a draft contract by no later than **December 31, 2022**. The IESO's development of draft Program rules and contract should adhere to the same parameters set out in the Minister's Directive to IESO that was approved by the Lieutenant Governor in Council pursuant to Order-in-Council No. 137/2022 dated January 27, 2022.

However, recognizing feedback provided by stakeholders, in providing its analysis and report-back and related materials I ask that IESO consider the impact of extending the Program eligibility to include any existing hydroelectric facility with a capacity of under 10 MW, and who does not have an existing contract with IESO or the Ontario Electricity Financial Corporation (OEFC) or whose contract with IESO or OEFC expires on or before April 30, 2043.

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The government also recognizes that some small hydroelectric facilities may be limited by technological or regulatory factors that restrict their ability to generate additional electricity during periods of system needs and to maximize their revenue under a capacity-style contract.

Therefore, while developing the design, Program rules and the draft contract for the Program, I ask that IESO also develop and design the draft contract with two different payment structures, as follows:

1. A payment structure consistent with the methodology adopted in IESO's report-back entitled "Small Hydro Program: Program for Re-Contracting Existing Hydroelectric Facilities – IESO response to January 27, 2022 Directive" dated July 1, 2022.
2. A payment structure which compensates facilities on a per MWh basis and appropriately values the reliability products these facilities provide to the grid.

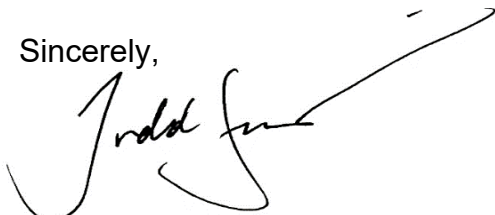
I ask that IESO report back to me on the implications of potentially allowing eligible facilities to obtain a contract under the Program before the date of expiry of the facility's current contract, with the new contract coming into effect as of the end of their current contract and expiring on April 30, 2043.

In addition, I ask that IESO continue to work with staff at the Ministry of Energy and small hydroelectric stakeholders on key policy considerations, including the provision of possible price adders for facilities less than 1 MW, the provision of incentives for facility upgrades and expansions that lead to an increased value to the electricity system, appropriate price escalation under both types of contracts and ownership of environmental attributes consistent with IESO's broader approach to enabling a Clean Energy Credit market in the province.

In developing the timelines of the Program, I ask that IESO analyze and report back to me on the implications of potentially launching the Program by July 31, 2023, subject to a potential Minister's Directive.

I also understand that IESO is engaging with stakeholders on the development of an approach for re-contracting hydroelectric facilities greater than 10 MW. I want to thank IESO in advance for all the work required on both initiatives and I look forward to the report, including draft program rules and contracts.

Sincerely,



Todd Smith  
Minister

c: Hon. Joe Oliver, PC, Board Chair, IESO  
David Donovan, Chief of Staff to the Minister of Energy  
Stephen Rhodes, Deputy Minister of Energy