

Ministry of Energy

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MC-994-2022-274

April 4, 2022

Ms Lesley Gallinger
President and Chief Executive Officer
Independent Electricity System Operator
Lesley.Gallinger@ieso.ca

Dear Ms Gallinger:

I would like to thank you and your team at the Independent Electricity System Operator (IESO) for developing the 2022 Annual Acquisition Report (AAR), released on April 4, 2022. The Report recognizes that Ontario's electricity sector is undergoing a period of transformation. Investments and growth in the mining, greenhouse and industrial sectors and increased electrification are driving increasing electricity demand across the province and escalating needs in certain regions.

Our government remains committed to an electricity system that is clean, reliable, and affordable. Over the past three years, we have made significant progress in reducing electricity rates for all electricity consumers. Class A and Class B consumers are saving up to 17 per cent as of 2022 and residential, farms and small business consumers are expected to see 12 per cent lower electricity bills by 2025 and 23 per cent lower electricity bills by 2029, according to the recent report from the independent Financial Accountability Office. We know that the IESO is aligned in our mission to keep energy rates stable and is a key partner in our government's work to reduce system costs.

That is why I remain supportive of the mechanisms identified in the IESO's Resource Adequacy Framework (RAF). On January 27, 2022, I issued a Minister's Directive directing the IESO to undertake a number of procurement initiatives and activities, including completing the first Medium-term Request for Proposals (MT RFP) to reacquire existing resources, consulting on the Long-term Request for Proposals (LT RFP) to acquire new electricity capacity in Ontario and targeted procurement contracts and programs to address specific reliability needs. These procurement initiatives, along with the IESO's ongoing efforts to expand the capacity auction, remain critical to meeting emerging system reliability needs.

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The 2022 AAR reflects the timing of Ontario's supply needs, with larger capacity needs forecasted to emerge in 2025. I appreciate that the IESO has identified a range of available options to address these needs, including making use of the existing Hydro Québec Capacity Sharing Agreement, adjustments to the nuclear outage schedules and broadening the capacity auction. The IESO also identified new procurement opportunities as well as the potential for new energy efficiency programs. My letter focuses on these two pieces in particular.

While the LT RFP contemplates resources being available by 2027, the AAR highlights the need for additional capacity beginning in 2025 to ensure system reliability. I understand that the IESO is considering a number of additional solutions, including additional procurement mechanisms, to acquire capacity resources for delivery in 2025 and 2026, which would need to be informed by further design and stakeholder engagement. These could include an expedited procurement, an additional process to incent expansions of existing facilities, and an enhanced capacity auction. To that end, I am asking the IESO to formally initiate engagement on potential designs for these additional solutions to acquire further capacity in 2025 and 2026 and report back to me by **July 15, 2022** on the recommended design of these procurement mechanisms and stakeholder feedback.

I expect that these mechanisms will adhere to the same principles identified in the RAF. Most importantly, I expect that these will ensure value to ratepayers, maintain reliability and balance risk appropriately between ratepayers and suppliers. I encourage the IESO to continue to engage and consider stakeholder feedback in the development of these new additional solutions and procurement mechanisms.

While new electricity resources are required to address upcoming capacity needs, the AAR recognizes that energy efficiency programs also have an important role to play. In September 2020, our government directed the IESO to establish a 2021-2024 Conservation and Demand Management (CDM) Framework, which was launched in January 2021. I want to thank the IESO for its efforts and oversight of this Framework and its underlying programs. It focuses on system needs and the customers who need them most – including low-income households and Indigenous communities – as well as supporting business competitiveness.

Energy efficiency programs can cost-effectively reduce demand and offset the need for additional supply, as economic growth and decarbonization efforts contribute to electricity demand growth across the province. The IESO's 2021 Annual Planning Outlook (APO) and the 2022 AAR reference the expansion of agricultural greenhouses, which are heightening electricity needs, in particular in Southwest Ontario. The IESO has advised that new or expanded CDM programs in the region could help respond to growing demand.

To this end, I am asking the IESO to examine and report back by **July 29, 2022** with options and analysis for cost-effective additional or expanded CDM programming, which would contribute to meeting electricity system needs. These options should be guided by the principles set out in the Minister's Directive to the IESO, as approved by the Lieutenant Governor in Council pursuant to Order-in-Council No. 1351/2020 dated September 30, 2020 (CDM Directive), and align with available results from the Mid-Term Review (MTR) of the 2021-2024 CDM Framework, in accordance with the MTR requirements set out under the CDM Directive.

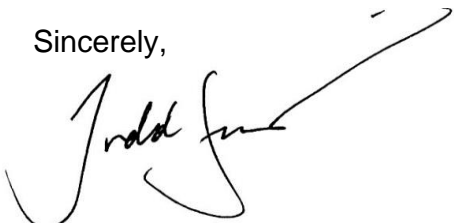
I would ask that the IESO consider accelerating the MTR to support government work on meeting electricity system needs forecasted in the AAR. It is my expectation that elements of the MTR as set out in the CDM Directive that cannot be completed by the report-back date of July 29, 2022 are still to be completed by the deadline of December 31, 2022 set out in the CDM Directive.

Any new or expanded CDM program options will need to help address the needs identified in the 2022 AAR. This should also include options to meet emerging regional needs and opportunities for other cost-effective non-wires alternatives (NWA) solutions, such as building on to successful utility-led NWA, and residential and small business demand response pilots, and other CDM programs. Advice and analysis on the design and technical basis for such additional CDM programs should encompass the information included in the IESO's published 2021-2024 CDM Plan, such as program cost-effectiveness, estimated annual costs and expected peak demand reduction and energy savings. I expect that, for options meeting regional needs, the IESO will include analysis on how these complement the proposed investments recommended in the area for transmission line and generation projects, and which may allow opportunities for earlier customer connections.

I would also ask the IESO to provide particular advice on how to manage the interest in CDM programs from the growing agricultural greenhouse sector in Southwest Ontario, including how to appropriately balance regional vs. provincial CDM investments in light of their relative urgency and value, and the broader objectives set out in the September 2020 CDM Directive. I also understand that the IESO may have flexibility through the September 2020 CDM Directive to use the existing CDM allocation to enhance programming targeted at the urgent system needs in Southwest Ontario. As IESO works on the formal analysis I am requesting, I would like to express my support for interim solutions that help address these needs. This is especially important given Stellantis and LG's landmark battery manufacturing announcement.

It is with all of this in mind that I ask the IESO, as our partner in delivering a reliable, affordable and clean energy system, to provide the information requested above regarding expanded CDM programs and an expedited procurement process.

Sincerely,

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

Todd Smith
Minister

- c: Stephen Rhodes, Deputy Minister of Energy
Donna Glassman, Legal Director, Ministry of Energy
Kelly Brown, Assistant Deputy Minister, Conservation and Renewable Energy
Karen Moore, Assistant Deputy Minister, Strategic Network and Agency Policy
Steen Hume, Assistant Deputy Minister, Energy Supply Policy