

# Unpacking IESO's LT2 RFP: Key insights from recent engagements

December 04, 2024

## Background and overview

In a recent address, Ontario's Minister of Energy and Electrification reaffirmed the government's commitment to delivering affordable, reliable, and clean energy while fostering economic growth and reducing emissions. With electricity demand projected to increase by 75 per cent by 2050—equivalent to adding four and a half cities the size of Toronto to the grid—this vision underscores the critical importance of proactive and innovative energy planning.

The Long Term 2 (LT2) procurements are critical to Ontario achieving its energy goals, with battery plants, electric vehicles and data centres driving ~\$44 billion in investment. By procuring the energy needed to power Ontario's growing economy, the LT2 represents a key pillar of the province's "all-of-the-above" energy strategy.

In this article, we'll update you on the latest developments from the Independent Electricity System Operator's (IESO) September 12, October 22 and November 21 engagement sessions, highlight important components of the draft capacity stream RFP and contract posted on November 22, connect these updates to policy developments and explore implications for LT2 proponents.

For further background on the IESO's LT2 procurement, please refer to our previous publications:

- [The proposed LT2 RFP: Strategic challenges, system needs and other musings](#), June 2024
- [IESO LT2 and MT2: What's new and what to expect](#), July 2024
- [Ontario launches large competitive energy procurement: Opportunities for renewables and next steps for LT2](#), September 2024

## Highlights from the Engagement Sessions

**November 21 joint session with the Ministry of Agriculture, Food and Agribusiness**

What was covered?

This joint engagement session, held Nov. 21, 2024, focused on defining and discussing Prime Agricultural Areas (PAAs), specialty crop areas, and agricultural impact assessments (AIAs), including the submission process for the LT2 RFP. The Ontario Ministry of Agriculture, Food and Agribusiness (OMAFRA) shared several resources, including guidelines and an agricultural information atlas, AgMaps.

What is the significance for proponents?

Stakeholder feedback from the session indicates proponents have concerns regarding confirming PAAs on official plans. While OMAFRA is working to clarify the issue, OMAFRA highly recommends that proponents should:

- Review and confirm PAAs through official plan mapping and consult municipalities or northern planning boards for clarification.
- Complete Agricultural Impact Assessments early to avoid delays.
- Engage municipalities early as stakeholders to meet key submission requirements.

**The AIA process for LT2 is proponent-driven and can be completed on the proponent's timeline, except for two steps with firm milestones:**

1. AIA pre-submission filing, the attestation of which is included at the time of bid submission;
2. Fulfilment of the complete AIA, which is completed post-contract award

## **October 22 joint session with the Ministry of Natural Resources**

What was covered?

IESO

The primary purpose of this session was to discuss **the proposed shift to a windowed approach from a single procurement**, spurred by revised electricity demand forecasts.

Following guidance from the Ministry of Energy and Electrification to meet these needs, the IESO proposes to include a "windowed approach" in the LT2 RFP by conducting a series of annual procurements over the next four years rather than a single, one-time procurement.

This approach would result in:

- An increased procurement target goal;
- More development via the procurements;
- More choices for proponents to align their projects and timelines with the procurements

Ministry of Natural Resources

At the IESO joint session with the Ministry of Natural Resources (MNR), MNR shared its Pre-development Document, covering considerations for Crown land that may impact proponents and address stakeholder feedback relating to service timelines. While IESO and MNR have not determined service timelines for predevelopment, many proponents are concerned that they may increase project risk.

The MNR shared important aspects of its Pre-development Document with proponents. While this document does not replace the Approval and Permit Requirements Document, it is meant to aid proponents in submitting a predevelopment proposal to the MNR relating to their renewable energy project.

What is the significance for proponents and stakeholders?

A windowed approach should bring some predictability and stability to procurement processes in Ontario, providing proponents (and their respective companies) with a reason to support ongoing presence in the province and to continue to invest in potential projects in Ontario on a more ongoing basis. Stakeholders will also understand that the processes being developed will continue to apply and will require ongoing staffing to ensure that the processes have a degree of efficiency.

The submission windows are anticipated to align with the previously proposed LT2 RFP timelines. **Although the IESO will release separate RFP and contract documents for each window, they are expected to remain “substantially the same”**, including the Enhanced Power Purchase Agreement and Capacity Style revenue models and key contract provisions, subject to incorporating stakeholder feedback.

**The windowed approach is intended to increase the number of participating projects** - enabling more projects with longer pre-development timelines to participate. This should further support the technology-agnostic approach covered in the September 12 engagement session.

What was left outstanding?

Several items were outstanding related to the windowed approach, including:

- Timelines for sharing revised procurement documents between windows;
- Identifying efficiencies for participation between windows;
- Indigenous Support Confirmations and Municipal Support Confirmations across windows;
- Overall targets and allocation between windows (which are expected to be informed by Annual Planning Outlook.)

## **September 12 IESO engagement session**

What was covered?

The IESO's September 12 engagement session focused on the following design developments for the LT2 procurements, many relating to the competitive procurement announced on August 28 by the Ministry of Energy and Electrification, including:

- Resource eligibility;
- Municipal support resolutions and project siting requirements;
- Rated criteria points;
- Other mandatory requirements;
- LT2 RFP Deliverability Assessment;

#### Resource eligibility

The Ministry’s announcement that directs that the LT2 be technology-agnostic, was confirmed in this session. Thus, the **energy stream** will primarily consist of bioenergy, solar, wind, and combined heat and power facilities. The **capacity stream** will largely capture hydrogen storage, electricity storage, gas, and bioenergy facilities.

#### Municipal support resolutions and siting requirements

Proponents must include municipal support resolutions for submissions sited within a municipality. If the project is located on Crown land or prime agricultural lands, they **must include, respectively, the MNR’s endorsement of a project’s Crown Land Site Report or the OMAFA’s applicable approval. The definition and format of a Crown Land Site Report** are still under review and will be incorporated in the final version of the LT2 RFP for the first window.

#### Rated Criteria Points

The IESO proposes that there be twelve rated criteria points available for proponents. Similarly to LT1, it is proposed that the rated criteria points be weighted as 20% of the Evaluated Proposal Price.

The IESO is proposing to award up to three rated criteria points based on each of the following categories:

- Proponent Indigenous participation level
  - If the Proponent’s Indigenous Participation Level is equal to or greater than 50 per cent, **three rated criteria points are available** ;
  - If the Participation Level is equal to, or more than, 25 per cent but less than 50 per cent, **two rated criteria points are available** ;
  - If the Participation Level is equal to, or more than, 10 per cent but less than 25 per cent, **one rated criteria point is available** .
  - d) Finally, if the Proponent Indigenous Participation Level is less than 10 per cent, **no rated criteria points are available** ; **AND**
- Local Indigenous participation - If the project site is located (wholly or partly) on Indigenous Lands or lands within the treaty area of the same Indigenous community that holds the aforementioned economic interest, up to **three additional rated criteria points** are also available; **AND/OR**
- If the project is not sited in whole or in part on Prime Agricultural Areas (PAAs) - **3 points will be available; AND/OR**
- If the project is sited in Northern Ontario - **3 points will be available** [

#### Other mandatory requirements:

These requirements, which primarily carry forward from the LT1 procurement, include:

- **Minimum experience requirements:** Proponents must have at least two designated team members per category of experience across planning, developing, financing, constructing and operating a qualifying project. This is a common area where proponents may err with a result of being disqualified, so we recommend careful input when preparing this portion of the proposal.
- **Proposal submission limits:** The IESO will accept **one proposal per project** , with **up to three variations** that can vary Contract Capacity and price. However, proponents may submit up to ten proposals.
- **Confirmation of access rights:** Proponents must prove they have uncontested access to the relevant properties and provide documentation that they are either the registered owner of the project site & have obtained access rights from the registered owner(s) or have obtained an MNR Confirmation Letter if the project site is on Crown lands.
- **Obtaining project support resolutions, depending on the project 's location:**
  - An Indigenous Resolution or an Indigenous Support Confirmation if the project is sited on Indigenous Lands, or
  - A Municipal Resolution in support of proposal submission, or
  - A Blanket Municipal Support Resolution **and** a Blanket MS Confirmation Letter

However, no supportive confirmation is required if the project is in an Unorganized Land.

## What is the significance of the September 12 engagement for proponents and stakeholders?

The minister's directive to ensure the procurement is technology-agnostic does not mean that nuclear resources are being invited to bid. Rather, the Ontario government is expected to procure [nuclear power resources](#) separately.

While the IESO continues to refine the definition of PAAs, the rated criteria released favour projects sited in northern Ontario and developed with Local Indigenous participation. However, there are two steps to proposal evaluation, and while projects will first be ranked by criteria points earned, they will subsequently be ranked for **deliverability**. **Questions do, however, remain about how much capacity is available in northern Ontario to facilitate deliverable projects.**

Indigenous participation has been an area of key focus in developing the LT2 design criteria. The LT1 contracts included points for Proponent Indigenous Participation and **this is again a rated criteria in LT2 - measured by the percentage of total economic interest held by an Indigenous community in the proponent's business.** Introduced to the LT2 is local Indigenous participation. **This criterion awards points when the proponent's site is located on the land of the same Indigenous community holding the aforementioned economic interest** . This incentivizes projects that respect and prioritize Indigenous land use and stewardship

The IESO is encouraging proponents to engage with communities early and often to establish trust, ensure alignment with community interests and build transparency in the process.

What was left outstanding?

This session did not cover the IESO’s future procurement of Long Lead Time resources

## Draft LT2 capacity RFP and contract now posted

On Oct. 30, 2024, the IESO released the first draft of the capacity stream RFP and contract. Revisions were posted on November 22, 2024. As expected, the LT2 capacity stream follows the LT1 format, and the eligibility requirements discussed above are generally incorporated into both streams.

### What’s new?

While the energy stream has up to twelve rated criteria points available per proposal, **the capacity stream has fifteen.**

The three additional points are awarded based on the facility's ability to deliver electricity continuously during qualifying hours: three points for non-storage facilities providing 12 or more hours of delivery, two points for storage facilities meeting the same criteria, and no points for any facility delivering less than 12 hours.

It remains unclear if these rated criteria points alone will be sufficient to incentivize longer-duration storage resources with higher capital costs and, thus, longer contractual commitments to be cost-competitive.

### Next steps

The IESO continues to collect and post feedback following each engagement session. Feedback from the November 21 session with OMAFA is due on Dec. 6, 2024. The next engagement session will be held on Dec. 12, 2024.

**This is the expected timeline for the first window of the LT2 RFP’s energy stream:**

December 2024	Another set of substantive drafts will be released for feedback on the windowed approach and any other policy changes.
Q1 2025	Final drafts for the first window are to be posted.  A question-and-comment period will be held; addenda will be issued if applicable.
Q3 2025	Proposal submissions will be due.
Q1 2026	Contract execution will occur.
2029/2030	Commercial Operation Dates will begin.

[BLG's Energy and Renewables group](#) provides expert guidance to clients navigating the LT2 RFP procurements. If you want to learn more about the LT2 RFP or how IESO procurements may affect your organization, please contact any of the key contacts below.

By

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