



MC-994-2021-352

May 13, 2021

Mr. Terry Young
Interim President and CEO
Independent Electricity System Operator
1600—120 Adelaide Street West
Toronto ON M5H 1T1

Dear Mr. Young:

Thank you for the Independent Electricity System Operator's (IESO) detailed review and analysis of ITC's (the Proponent) Lake Erie Connector project, in accordance with Gate 2 of Energy, Northern Development and Mines' (ENDM) project assessment framework.

After reviewing IESO's analysis and considering the potential system benefits of a new interconnection with the PJM market, I am asking IESO to proceed to the next phase of ENDM's project assessment framework (i.e., Gate 3) and enter into contract negotiations with the Proponent.

In undertaking contract negotiations, I would ask that IESO work with the Proponent to achieve the following outcomes:

1. Contract terms that appropriately balance risks to maximize the benefits of the line to ratepayers.
2. Contract terms that provide pre-construction off-ramps that protect ratepayers for events that IESO considers having potential for significant impact on project economics or ratepayer benefits, which may include, for example:
 - Firm construction or equipment cost proposals that are materially higher than estimated; and
 - If an agreement in principle on a PJM-IESO operating agreement cannot be reached to the satisfaction of IESO.
3. Contract terms to protect ratepayers after construction commences. This could include:
 - Savings mechanisms that allow ratepayers to benefit from project cost reductions such as through lower than expected financing costs or savings on construction, development or operation costs;
 - A cap on construction and operating costs; and
 - Provisions for transparency of costs so that ratepayers can assess their investment.

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4. Requirements on the proponent to obtain all necessary permits and approvals as well as obtain community support and the support of affected Indigenous communities for the construction of the project.

If IESO and the Proponent are able to reach agreement on proposed major contract terms, I would ask that IESO submit them to me for review. I will then determine, subject to the approval of the Lieutenant Governor in Council, whether to direct IESO to execute a contract or if further negotiation to the proposed terms and conditions is required to achieve a better outcome for Ontario electricity consumers. Should IESO be unable to agree to terms with the Proponent that provide sufficient value to ratepayers, the project would not proceed to contract execution.

Given the complexity of the project, I would ask that ENDM staff be included in negotiations in an observer role. This may involve an external advisor retained by ENDM to provide assessment of the negotiations. This will enable ENDM to provide comprehensive and timely advice to support a decision on the negotiated outcome, while IESO would remain accountable for negotiating with the proponent and determining whether an agreement can be reached.

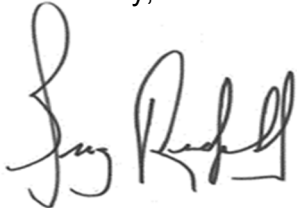
In conjunction with its report back on contract negotiations, I also request that IESO assess and report on the following items:

1. The potential for cost-competitive alternative intertie enhancements with any other neighbouring jurisdiction. This could build on prior IESO work to examine interties.
2. IESO's proposed approach for cost recovery from ratepayers for amounts owed to ITC under the contract.
3. The potential domestic and global greenhouse gas (GHG) impacts of any electricity imports and exports through this transmission line and mitigation mechanisms.

In addition, should IESO be unable to agree to terms with the Proponent that provides sufficient value to ratepayers, the project would not proceed to contract execution.

I look forward to hearing from IESO by December 31, 2021.

Sincerely,



The Honourable Greg Rickford
Minister of Energy, Northern Development and Mines

- c: Leonard Kula, Vice President, Planning, Acquisitions and Operations, and Chief Operating Officer, IESO
Michael Lyle, Vice President, Legal Resources and Corporate Governance, IESO
Aaron Silver, Chief of Staff, Minister's Office, Ministry of Energy, Northern Development and Mines
Stephen Rhodes, Deputy Minister, Ministry of Energy, Northern Development and Mines