Ministry of Energy

Office of the Minister

4th Floor, Hearst Block
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6754

Ministère de l'Énergie

Bureau du ministre

4e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél. : 416 327-6758
Téléc. : 416 327-6754

Ontario

JUN 26 2013

Mr. Colin Andersen
Chief Executive Officer
Ontario Power Authority
1600-120 Adelaide Street West
Toronto ON M5H 1T1

Dear Mr. Andersen:

RE: Hydroelectric Projects

Hydroelectric power is a central pillar of the Government's renewable electricity portfolio. The Government wishes to see continued procurement of hydroelectric capacity. I anticipate that an updated target for installed hydroelectric capacity will be established through the review of the Long-Term Energy Plan.

Direction

I hereby direct the Ontario Power Authority (OPA), pursuant to my authority under sections 25.32 and 25.35 of the *Electricity Act, 1998*, to undertake the following:

Hydroelectric Project Procurement

(i) Expansion of existing hydroelectric projects

The OPA shall launch a standard offer program by September 30, 2013 to procure up to 40 MW of hydroelectric capacity at existing facilities with expansion potential for incremental capacity. This procurement process shall only include the following participants:

- Currently contracted Non-Utility Generation facilities under contract with the Ontario Electricity Financial Corporation (OEFC)
- Existing Hydroelectric Contract Initiative (HCI) contracted facilities that were not deemed by the OPA to be under negotiation with the OPA prior to the issuance of the January 21, 2013 Ministerial direction entitled "Re: Hydroelectric Projects"

The Ministry will work with the OEFC and the OPA to develop an appropriate approach to managing existing and new contracts for existing hydroelectric projects.

New contracts will be on terms that reflect a reasonable cost to Ontario electricity ratepayers and a reasonable balancing of risk and reward, taking into account the specific operating characteristics and value of the output of these types of projects.

(ii) New hydroelectric projects

The OPA shall launch a standard offer program by September 30, 2013 to procure up to 50 MW of new hydroelectric capacity.

The OPA shall include the following features and eligibility criteria in this new municipal program stream:

- Project size must be at least 5 MW
- Open only to eligible municipal waterpower projects
- Project had been the subject of one or more FIT applications submitted before June 5, 2010
- Connection availability testing should take into account the reasonably expected time for these projects to reach commercial operation, in parallel with approved transmission and distribution system upgrades currently underway
- Milestone date for commercial operation shall be eight (8) years from the Contract Date in order to reflect the realities of the projects successfully satisfying the required environmental approvals
- Projects involving provincial Crown lands shall be subject to requirements to comply with Ministry of Natural Resources' policies, procedures and regulations prior to and after contract award regarding allocation of provincial Crown lands

New contracts will be on terms that reflect a reasonable cost to Ontario electricity ratepayers and a reasonable balancing of risk and reward, taking into account the specific operating characteristics and value of the output of these types of projects.

Relationship to the January 21, 2013 Direction

The procurement of hydroelectric capacity authorized by this direction is in addition to the procurement of up to 10 MW for new build distribution-connected hydroelectric projects (greater than 500 kW and less than 5 MW) set out in the January 21, 2013 Hydroelectric Projects direction. The OPA shall also launch the procurement of hydroelectric capacity authorized in the January 21, 2013 direction by September 30, 2013.

Aboriginal Partnership Project

Ontario Power Generation Inc. (OPG) and its First Nation partner, the Taykwa Tagamou Nation, has entered into a reciprocal and partnership agreement for a proposed New Post Creek hydroelectric generating station. The OPA shall enter into negotiations commencing in summer 2013 for a power purchase agreement to procure electricity from the proposed New Post Creek hydroelectric generating station. With a capacity of approximately 25 MW, this LTEP-referenced project is being proposed by OPG and the Taykwa Tagamou Nation for construction on New Post Creek near its outlet to the Abitibi River. Any agreement resulting from these negotiations shall be on financial terms that recognize the benefits associated with Aboriginal participation in hydroelectric generation projects. The agreement shall also reflect the risk structure of the Hydro Electric Supply Agreements, as negotiated between the OPA and OPG, for hydro-electric power projects such as the Upper Mattagami project.

Ontario Power Generation (OPG) Hydroelectric Facilities Leased and Operated by Third Parties

Third parties currently leasing and operating hydroelectric generating stations owned by OPG shall be permitted to apply to the HCI program. The term of the contract should begin after the date of this direction and once a complete HCI application has been provided and determined complete by the OPA, and be for a duration coincident with the end date of any lease of the station, or the standard HCI contract, whichever occurs first.

Duty to Consult

The OPA shall require Suppliers to cooperate with the Crown in fulfilling any duty to consult First Nation and Métis communities triggered by the project, by fulfilling all delegated procedural consultation responsibilities and entering into relevant arrangements with the Crown as requested.

Existing FIT Contracts

In acknowledgement of the unique regulatory approval requirements required for waterpower FIT projects, the OPA shall offer a three (3) year extension to the Milestone Date for Commercial Operation in existing waterpower FIT contracts.

General

The procurements authorized by this direction do not constitute large FIT projects, nor should they be considered part of the development of a competitive process for procurement of large renewable energy capacity as contemplated by the June 12, 2013 direction.

This direction supplements previous directions related to the HCI, the FIT Program, the microFIT Program and FIT Support Programs and replaces provisions of these previous directions only to the extent that a particular provision of this direction is inconsistent with a provision of a previous direction.

This direction takes effect on the date issued.

Sincerely,

Bob Chiarelli
Minister of Energy