IESO’s Long-Term 2 RFP – Window 2: Key developments and emerging issues

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The Independent Electricity System Operator (IESO) is shaking up the requirements under Window 2 of its Long-Term 2 (LT2) Request for Proposals. Recent engagement sessions signal several important developments for proponents, including expanded eligibility for repowered facilities, potential increases to proposal fees, the possibility for domestic content commitments, and being required to be in “good standing.”

While subject to change, the IESO expects to publish draft RFPs and contracts in July 2026, with proposal submissions due in Q2/Q3 2027 and contract awards expected in Q1 2028.

Two paths to eligibility for repowered facilities

Repowering projects that maintain or reduce their nameplate capacity will be deemed deliverable and will not be subject to deliverability testing, creating a clear competitive advantage. By contrast, projects that increase capacity must undergo deliverability testing. Supporting this approach, the IESO has adopted a broad, flexible definition of repowering, with no prescriptive equipment replacement criteria, relying instead on existing contract obligations, independent engineer certification, and potential adjustments to performance security as the guardrails.

The IESO is proposing two eligibility pathways for facilities with a nameplate capacity >1 MW. The first for existing Medium-Term Contract holders which are also required to have previously completed a 20-year (or multiple contracts totalling 20 years) IESO/OPA/OEFC contract and have completed at least 3 years of their Medium-Term Contract as of May 1, 2032; and the second for legacy facilities that do not currently have a Medium-Term Contract but have been in service for a minimum of 23 years as of May 1, 2032.

For repowering proponents, the key decision will be whether to operate for 3-years with merchant revenue or 3-years under an MT Contract.

Domestic content requirements

The IESO is expecting the inclusion of domestic content requirements for Window 2, broadly aligned with the Long Lead Time (LLT) RFP approach. Proponents would be required to submit a supply chain disclosure plan describing sourcing strategies, including the origin of goods and services and justification for any non-Canadian inputs. While this disclosure is primarily intended for informational and policy development purposes, proponents may elect to make binding commitments regarding Canadian content. In line with the LLT framework, such commitments would entitle proponents to a pricing advantage in the evaluation process.

Under the LLT, where a proponent opts to commit to Canadian content, a minimum threshold (*e.g.*, 60 per cent of capital costs) is required to receive an evaluation incentive in the form of a reduction to the evaluated proposal price. However, these commitments would be enforceable: proponents would need to attest to compliance at commercial operation, and failure to achieve the committed level of Canadian content could result in liquidated damages of up to $5 million.

Proponents should obtain legal advice around the potential trade law implications of these new requirements, and how that would impact any particular project or proposal.

Increased proposal fees

The IESO has recently applied to the Ontario Energy Board to increase the maximum proposal submission fees for Window 2 to $25,000 from the current maximum fee of $10,000.

Although it is reasonable to rely on an Ontario Energy Board decision with respect to the rate, there are no generator representatives that are intervening in the IESO's application so it is unclear how thoroughly this proposal will be tested.

E-PPA Design: DA to RT adjustments

The IESO is considering removing the Day-Ahead to Real-Time Adjustment (DARTA) mechanism for Window 2. DARTA was originally implemented in May 2024 as an interim measure to protect proponents from settlement risk arising from differences between day-ahead (DA) and real-time (RT) market prices. The IESO's position is that by Window 2's proposal submission deadline, proponents will have access to over 2 years of DA and RT pricing data and market participants are best positioned to manage uncertainty related to next-day production.

Removing the DARTA mechanism would shift significant, unmitigated DA to RT risk onto participants (potentially causing less participation in the procurement), despite no material change in the underlying forecasting uncertainty. This is particularly acute for weather-dependent resources, which remain exposed to uncontrollable variability with limited ability to hedge or manage the risk.

Locational rated criteria

The IESO is considering refinements to the locational rated criteria approach used in Window 1, where projects located in Northern Ontario received evaluation advantages

and utilized approximately 1053.55 MW out of 1,115.10 MW of contract capacity in the energy stream and 190 MW out of 640 MW of contract capacity in the capacity stream. For Window 2, the IESO is exploring options to enable additional capacity in Northern Ontario and may expand locational incentives more broadly to encourage development in areas that provide identifiable system benefits, such as locations with available transmission capacity or those that support system reliability and defer infrastructure investments.

It remains to be seen whether additional locational criteria will drive procurements toward a more location-focused approach, to avoid projects being proposed in areas where they are unlikely to proceed.

Barring proponents not in good standing

The IESO is considering introducing exclusion criteria that would bar proponents from participating in procurements if they are deemed not to be in good standing, including where their conduct is considered inconsistent with good faith during prior procurement processes. This restriction could extend to affiliated entities and may result in a prohibition on participation in future procurements for three years or more. The IESO is still developing the specific criteria for determining good standing but has indicated that failure to execute an awarded contract may be one example of disqualifying conduct.

This type of proposal should be of concern to all participants in IESO procurements. It is ultimately a discretionary right granted to the IESO to determine whether or not a proponent is or is not “in good standing”. The first example cited by the IESO is particularly concerning, as the RFP for Window 1 expressly contemplated a proponent not executing an awarded contract (and a financial consequence followed). The proponents in question were operating within the four corners of the RFP process.

Which leads one to ask - what else can the IESO deem as “not in good standing”? Would a *bona fide* dispute under an existing PPA be sufficient (we don’t agree with you on this dispute)? What about a bona fide dispute under the IESO Market Rules? What about an OEB challenge of an IESO Market Rule amendment?

What is to prevent the IESO from simply using this new power to increase their leverage in any circumstances where they are adverse to a particular proponent in the future? As currently proposed – absolutely nothing.

Transparency & information disclosure

The IESO is considering enhanced transparency measures for Window 2, particularly in relation to the treatment of unsuccessful proposals. However, stakeholder feedback has been mixed, with some supporting greater disclosure (*i.e.*, anonymized information on technology mix, project size), and others raising concerns about the impact on competitive tension and the potential exposure of proprietary strategies.

Recognizing the current feedback, the IESO is evaluating the release of additional post-procurement information, such as lists of unsuccessful proposals, data on project characteristics, and reasons for non-selection, while maintaining confidentiality over commercially sensitive details like pricing and specific project locations.

Proponents may be better informed for future submissions should the IESO elect to proceed with this mandate. However, proponents may also see key competitive details associated with their proposals put into the public domain – perhaps making them less competitive for the next window.

Communication/announcement reporting

Reflecting a potential increase in oversight and coordination around project communications, Suppliers awarded contracts under Window 2 may be subject to expanded reporting obligations. These expanded obligations would build on the existing requirements found in Window 1 (*i.e.*, to provide quarterly progress reports from contract start to commercial operation) and require Suppliers to report on planned public communications relating to their projects, with the understanding that such information will be shared with the Ministry of Energy and Mines.

Open policy items

The IESO has identified several unresolved policy issues that may materially affect project viability and is continuing to engage with government on these matters, particularly in relation to siting and permitting constraints. In future procurement windows, repowering may be constrained where existing project sites are located in Prime Agricultural Areas. In addition, requirements to demonstrate consideration of alternative sites may not be practical for repowering projects, given that such facilities are inherently tied to fixed, existing locations. Finally, the IESO has indicated that all proposals, including those for repowering projects, are expected to remain subject to the mandatory municipal support requirement. These requirements largely come from the ministerial direction dated April 16, 2026; thus, an updated ministerial direction may be required to address these issues.

Next steps

The IESO has requested feedback on its latest engagement session by July 3, 2026; the feedback form is posted on the IESO's website. The IESO's next engagement session regarding Window 2 is expected to take place in August.

BLG's Energy group provides expert guidance to clients navigating the IESO's procurements, including the LT2 RFP. 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.

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