

IESO LT2 and MT2: What's new and what to expect

July 16, 2024

Background and overview on LT2 and MT2

Further to our previous article, "[The proposed LT2 RFP](#)", the Independent Electricity System Operator (IESO) has commenced a forward-looking procurement process to address a forecasted energy and capacity shortfall in Ontario and as part of the province's commitment to the [energy transition](#).

The IESO hosted an engagement seminar on July 4 to solicit engagement for the Medium Term 2 (MT2) RFP and the [Long Term 2](#) (LT2) capacity stream RFP and the anticipated proposal evaluation process. The engagement seminar also continued the discussion on the LT2 RFP energy stream and the LT2 Long-Lead Time resource stream.

Here are the key takeaways from this engagement session:

- LT2 capacity stream proposals will be evaluated first on proposal price, followed by evaluation on deliverability.
- MT2 proposals will be ranked solely on price without the consideration of any other criteria.
- Municipal support resolutions are likely to be required for LT2 submissions. Although this could change – such resolutions *may not* be required for MT2.
- LT2 capacity stream proposals may include rated criteria points for long-duration assets (>4 hours of continuous injection), likely spurred by [energy storage](#) interest groups.
- Material cost indices and early operation payment incentives offered in LT1 will likely be removed from the LT2 criteria.
- Bifurcated targets for storage and non-storage have been discontinued in the LT2 capacity stream.
- ***While many have raised issues with LT2 design items, including municipal support resolutions, resource eligibility, E-PPA conceptual design and agricultural land use policy, these items are now closed to further feedback.***
- ***Similarly, the rated criteria in MT2 are now closed for feedback.***

The IESO offered several other insights for energy developers, producers, financiers, and other stakeholders following the LT2 and MT2 developments.

The MT2 RFP

What is the MT2 RFP?

The MT2 RFP is focused on meeting Ontario's energy needs by reacquiring existing resources coming off contract by supporting investment to extend asset lifespan. This RFP includes both capacity and energy streams, and eligibility will focus mainly on price.

Here's what the IESO offered regarding the MT2 procurement in the July 4 engagement webinar:

- **Timeline:** Registration is expected to open in September 2024. Final RFP & contract will be released in November 2024. Proposal submissions will be due in January 2025, with evaluation and contract awards scheduled for March 2025.
- **Procurement Target:** The IESO proposes a threshold target of 80 per cent of submitted proposals to foster technology-agnostic competition. The RFP is anticipated to include flexible language permitting the IESO to award contracts beyond the set procurement target if prices are within a threshold of marginal successful bids.
- **Contractual Framework:** The **capacity stream** will use the LT1 contract as precedent. Suppliers would be paid on a "pay-as-bid" basis to make contract capacity available on a day-ahead basis for all qualifying hours. The **energy stream** will follow the LT2 contract (E-PPA) revenue model – where a supplier participates in the market and earns production revenue in a 'Grid Reliability Payment' (*i.e.*, the difference between deemed energy revenues and the supplier's monthly revenue requirement).
- **Contract Terms:** Contracts for both the energy and capacity streams will be five years, to begin on May 1 of the year closest to the current contract end date (*i.e.*, 2026, 2027, 2028, or 2029). The IESO will offer bridging extensions up to six months and proponents may exit their existing contract early to enter MT2.
- **Fees, Security, and Evaluation Criteria:** The proposed fees include:
 - Registration fee of \$500.
 - Minimum proposal submission fee of \$3,000.
 - Variable fee of \$100/MW for existing MWs, up to a maximum of \$10,000 (inclusive of the \$500 registration fee).

The proposal security is anticipated to follow MT1 with proposal security in the amount of \$10,000/MW, up to a maximum of \$2,000,000, in the form of a letter of credit, as is standard procedure in IESO procurements.

The IESO is aiming to rank proposals on price only, with no rated criteria points in the MT2 RFP.

- **Additional Considerations:** The MT2 contract will allow successful proponents to exit early if they are successful in the Long-Term 3 ("LT3") RFP. The

requirement for a proponent to obtain community support under the MT2 RFP remains under consideration because these facilities are all preexisting.

LT2 RFP

What is the LT2 RFP?

In addition to the MT2 procurements, the IESO is engaged in a series of Long-Term procurements aimed at securing up to 5000 MW of *new* capacity from non-emitting power sources (primarily wind, solar and biomass) by 2025. The LT2 procurement aims to source 2000 MW of electricity generation. While LT1 was primarily focused on bolstering *capacity* needs, LT2 (and LT3/LT4) is primarily aimed at procuring *energy* needs. Because most non-emitting energy sources are intermittent, they must be balanced with capacity primarily via storage.

Here's what the IESO offered regarding the LT2 procurement in the July 4 engagement webinar:

LT2 RFP capacity stream

The LT2 RFP capacity stream will follow the LT1 RFP process. Proposals will be ranked based on proposal price and then evaluated for deliverability. The focus will be on long-duration assets to foster a diversity of technology. The **bifurcation of targets for storage and non-storage has been discontinued.**

- **Timeline:** The draft LT2 capacity stream RFP and contract are expected to be posted imminently, with the final RFP issued in Q4 of this year. Proposal submissions will be due in Q3 2025, and contract awards are scheduled for Q1 2026.
- **Targets:** The LT2 capacity stream targets 500-1000 MW of new and eligible expansion capacity-based Market Participants (over 1 MW).
- **Contract Terms:** The expected commitment is a 20-year contract, commencing in 2031.

LT2 RFP energy stream

Although many questions remain around the LT2 evaluation criteria, the webinar confirmed that price will, as expected, hold significant weight. The following additional clarification was offered around the **energy stream proposal evaluation:**

In their proposals, proponents will be required to provide the following three elements to the IESO to establish the revenue requirement for the facility:

- **proposal price** (expressed in \$ per MWh);
- **contract capacity** (expressed in MW); and
- **monthly energy production factors** (which will average out to the annual energy production factor used to calculate monthly revenue requirements).

Furthermore, the IESO proposes that proponents submit a proposal price input form, which would automatically calculate the proposal price based on the proponent's:

- (a) **annual production factor**,
- (b) **annual revenue requirement**, and
- (c) **contract capacity**, based on the monthly production factors submitted by the proponent.

Proponents are recommended to reflect expected production in their proposal price for the sake of the ranking of proposals.

- **Timeline:** The LT2 energy stream contract is to be posted on or before the IESO's July 24 engagement meeting, with the RFP to follow soon thereafter. Like the capacity stream, the final RFP is anticipated to be issued in Q4 2024, with proposal submissions to follow in Q3 2025. Contract awards are scheduled for Q1 2026.
- **Targets:** The LT2 energy stream targets 5 TWh (~2000MW) via energy-producing Market Participants (over 1 MW), including repowered and/or refurbished facilities.
- **Contract Terms:** Proposed 20-year contracts commencing in 2030.

LT2 Long-Lead Time Resource

Timeline: The draft RFP is expected to be issued in Q3 2024, and the final RFP in Q4 2024. Proposal submission in Q3 2025 and contract awarded in Q1 2026.

Targets: The **LT2 Long-Lead Time Resource** stream targets 500-1000MW from energy and capacity resources with long lead times, such as hydro projects.

Contract Terms: Proposed 40-year contracts to commence in 2034-2035.

LT2 proposal evaluation:

The evaluation of capacity and energy stream proposals will take place separately. The energy stream will be given priority in terms of deliverability. Proponents can submit up to 3 "laminations" for each proposal, with each ranked according to the evaluated proposal price. Once ranked by price, the projects will be assessed for deliverability and crown land overlap.

Security:

- \$35,000/MW is proposed as the proposal security requirement.
- Proponents would be required to submit a minimum proposal security of \$500,000 and a maximum of \$15,000,000.
- Proposal security in the form of a letter of credit.
- Proponents awarded LT2 contracts will have their security converted to completion and performance security held until the Commercial Operation Date (COD). After COD, security will be \$20,000/MW of Maximum Contract Capacity.

Next steps

As discussed in [BLG's webinar with Pelino Colaiacovo and John Vellone](#), while the LT2 offers an appealing opportunity to developers, financiers and producers looking to invest in Ontario electricity generation, several issues have arisen in the engagement process thus far. The engagement webinar aimed to address some of these questions but left many unanswered.

Going forward, the IESO is interested in receiving feedback from stakeholders on the following open issues:

- LT2 RFP Deliverability Assessment;
- LT2 Contractual Obligations;
- Indigenous Community Participation;
- Community Engagement;
- Rated Criteria;
- LT2 RFP: Capacity Stream:
- The award of rated criteria points for long-duration assets;
- Requirement for municipal support confirmation to be obtained prior to submission deadline;
- Removal of materials cost indexing and early operation payment incentives,
- LT2 RFP Proposal Evaluation; and
- MT2 RFP: Design and Coordination with LT2 RFP.

Stakeholders are invited to submit written feedback to the IESO before July 19. The feedback form can be found on the [IESO's Long-Term RFP engagement website](#).

Unsure what these proposed changes mean for your organization or facility? BLG's Energy and Renewables group brings experience and deep knowledge of Ontario's energy sector. If you have any questions about the MT2 RFP or LT2 RFP, please get in touch with any of the key contacts below to book a call.

By

[John A.D. Vellone](#), [Harry M. Case](#)

Expertise

[Capital Markets](#), [Energy – Power](#), [Storage](#)

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BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

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