

MEETING NOTE

NAME OF ORGANIZATION: ITC Holdings Corp. (ITC) / Fortis Inc.

DATE/TIME OF MEETING: January 17, 2018; 1:00-1:45pm

LOCATION OF MEETING: TBD

PURPOSE: To discuss the Lake Erie Connector project

ATTENDEES: Minister of Energy
Glenn Thibeault

ITC / Fortis
TBD

ANTICIPATED AGENDA ITEMS:

1. 2017 LTEP Supply Outlook / IESO's Market Renewal
2. Lake Erie Connector Project

NOTES ON AGENDA ITEMS:

1. 2017 LTEP Supply Outlook / IESO's Market Renewal

- The 2017 Long-Term Energy Plan (2017 LTEP) states that while there is currently an adequate supply of electricity, a shortfall in capacity is expected beginning in the early-to-mid 2020s (see Figure 1 on page 2).
- This need for additional capacity will be met through initiatives under the Independent Electricity System Operator's (IESO) Market Renewal. Capacity auctions (or other market-based mechanisms) will allow existing and new generation facilities to compete in a robust market with clean imports, demand-side initiatives and new emerging technologies.

Suggested Response:

- While Ontario currently has an adequate supply of electricity, the 2017 LTEP expects that a supply gap will emerge in the mid-to-early 2020s.

- A reformed electricity market would increase two-way electricity trade with other jurisdictions. Imports and exports could be scheduled more frequently on the interties, potentially resulting in more imports of lower-cost generation.
- Under IESO's Market Renewal, generation in the PJM regional transmission organization that partners with the Lake Erie Connector line would be able to compete with Ontario's generation facilities and other suppliers in regular capacity auctions as the province seeks to meet the expected need for additional capacity.
- I encourage you to participate in the Market Renewal Working Group and its Non-Emitting Resources subcommittee to ensure your views are heard.

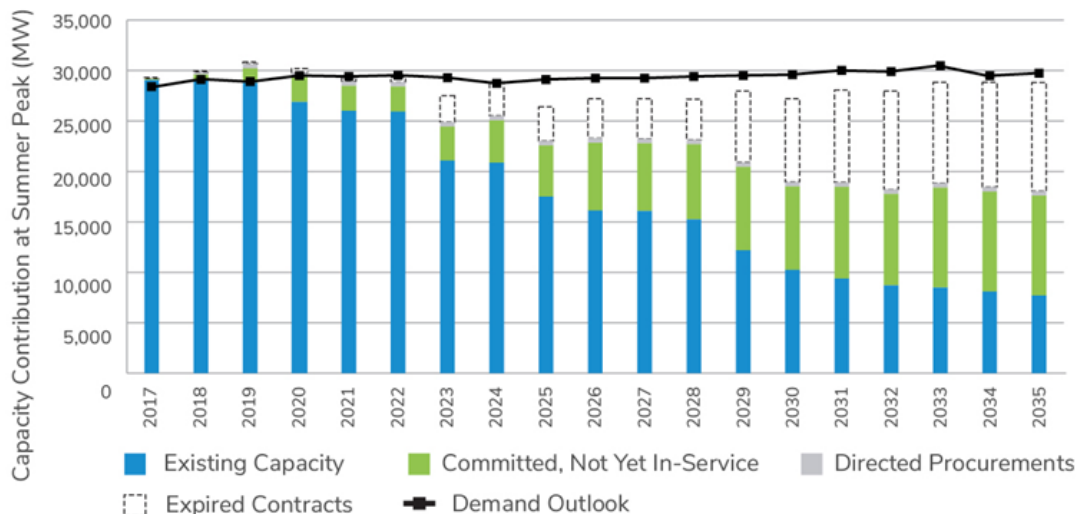
Background:

Supply Outlook

- Figure 1 shows that Ontario has an adequate supply of electricity to meet peak demand until the early-to-mid 2020s as the Pickering Nuclear Generating Station reaches its end of life, and nuclear units at Darlington and Bruce are temporarily removed from service for refurbishment.

Figure 1: 2017 LTEP Supply / Demand Outlook

Supply and Demand Outlook (2017 - 2035)



Source: IESO

IESO's Market Renewal

- IESO's Market Renewal is expected to result in a more competitive marketplace that more flexibly and efficiently meets system needs and government policy goals. Market Renewal will be aligned with the objectives of Ontario's Climate Change Action Plan and will be designed to meet system needs, reduce ratepayer costs and reduce greenhouse gas (GHG) emissions.
- Generators, demand response providers, importers and emerging new technologies could all participate in auctions under Market Renewal.
 - Market Renewal will ensure that resources will be able to provide flexibility, reliability and ancillary services. This will help provide transparent revenue streams for the needed services and ensure that all resources can compete on a level playing field.
- A reformed electricity market would also increase two-way electricity trade with other jurisdictions. Imports and exports could be scheduled more frequently on the interties, which are the transmission lines going to states and other provinces. This could allow more imports of lower-cost generation, and provide greater revenue and access to export markets for Ontario generators
- The Market Renewal Working Group (MRWG) is a stakeholder forum to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of Market Renewal. MRWG's activities form an integral part of IESO's Market Renewal Engagement Framework.
- The MRWG has struck a non-emitting resources subcommittee (NER-SC) to ensure that Market Renewal addresses the unique characteristics of non-emitting resources and to consider the potential for additional incentive mechanisms to meet low carbon policy objectives.

2. Lake Erie Connector Project

- ITC may be seeking "anchor tenants" willing to secure a significant portion of the available transmission capacity before proceeding with an open procurement for the remaining capacity if necessary. The anchor tenant improves the project's feasibility and provides financing.
- In the past, ITC has reached out to Ontario Power Generation (OPG) to solicit participation in the project. OPG has previously indicated to ENERGY that its internal analysis shows that the costs of agreeing to be the anchor tenant would not justify the benefits from increased trade revenue.
- A merchant intertie would generally be good for Ontario ratepayers by providing increased liquidity in the wholesale market.

- In a 2017 letter to the Minister, ITC raised the issue of future capacity needs in the early/mid 2020s, suggesting that Ontario consider directing IESO to procure capacity for this period in a manner that would allow applicants to supply across the Lake Erie Connector.

Suggested Response:

- **Ontario supports a competitive marketplace for transmission and participation of the private sector in transmission projects, when based on economic feasibility.**
- **Can you provide an update on your progress to secure tenants for the line?**

If pressed on the participation of OPG as an anchor tenant:

- **As we have discussed previously, neither the Government nor the Ministry has a role in the discussions between ITC and OPG. This is a business matter and, as such, it would not be appropriate for the provincial government to intervene.**

Background:

- The Lake Erie Connector is a proposed 1,000 MW HVDC underwater merchant transmission cable from Nanticoke, Ontario, to Erie County, Pennsylvania, which would thus provide the first direct link between the markets of IESO and PJM Interconnection, LLC. This is a merchant line and as such, it will not be funded through the electricity ratebase.
- ITC would own the line and be responsible for its construction and maintenance. Investors would have first rights to schedule transactions on the line.
- A merchant project such as enables in trade energy, capacity and environmental attributes between Ontario and PJM (where electricity prices are higher than in Ontario). ITC also suggests that the line would help alleviate surplus baseload generation.

Open Solicitation Process for Tenants

- ITC has indicated that they are pleased with the expressions of interest received in their open solicitation for transmission capacity process that concluded in August 2015; and that they are now in bilateral negotiations for line capacity with prospective participants.
- ITC has approached OPG several times in the past regarding its interest for OPG to make a long term commitment as a tenant on the Lake Erie Connector project.
- In its last update to the ministry, OPG's internal analysis indicated a high degree of risk and cost and as such, from a business perspective, was unable to invest in the project. However, it's possible that discussions have continued between parties.

Request for IESO Procurement

- In a November 20, 2017 letter, ITC noted the release of the LTEP and suggested that IESO be directed to procure future capacity to address system needs ITC feels will arise in the early/mid 2020s.
- ITC further suggested that this procurement should be designed to allow for participation of generators that could transmit from PJM over the Lake Erie Connector
- The Minister responded to ITC in a December 18, 2017 letter indicating that the need for additional capacity will be met through mechanisms currently under development as part of the Independent Electricity System Operator (IESO)'s Market Renewal initiative.

APPENDIX:

1. Market Renewal

- The IESO's Market Renewal Initiative consists of three work streams: energy, capacity and operability. When new supply needs are identified, IESO would use competitive mechanisms to procure new supply resources. An example of a market-based mechanism that could be used is an incremental capacity auction.
- Market Renewal is expected to result in a more competitive marketplace that more flexibly and efficiently meets system needs and government policy goals. Market Renewal will be aligned with the objectives of Ontario's Climate Change Action Plan, and will be designed to meet system needs, reduce ratepayer costs and reduce GHG emissions.
- Market Renewal can be flexible enough to meet various scenarios from higher demand due to increased electrification of our economy to lower demand scenarios as a result of increased use of distributed energy.
- Market Renewal will help Ontario prepare for the future by creating a competitive framework that cost-effectively incorporates clean energy resources and new and emerging clean technologies. This will help meet our climate change and GHG reduction commitments.
- The IESO, together with its sector partners, has identified the need to ensure that this new framework can properly value environmental attributes and the benefits they provide to the system. At the same time, existing resources will be able to continue to meet system needs in the redesigned electricity markets. Maximizing the use of these assets will allow Ontario to limit future cost increases.

- The IESO is working closely with partners in the electricity sector to design the significant changes that will become the foundation of Market Renewal and a plan for bringing them into effect. The plan will specify the changes to be implemented and the timelines for completing the work. This will allow IESO and its partners to address the known challenges of our existing markets and lay a solid foundation for a more competitive and flexible energy market that can meet future needs.
- Market Renewal initiative is expected to save up to \$5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity.

2. Lake Erie Connector

Market Rules to Support use of Lake Erie Connector

- IESO is working with PJM on concerns regarding PJM's dispatching requirements and their interface with Ontario generation participating in PJM's market but is currently having discussions to work through these issues.
- IESO and Hydro One have conducted early studies and show no reliability concerns or improvements as a result of the line. Investment in the project is a commercial decision for ITC and is not premised on Ontario system need.
- IESO and PJM have discussed steps towards interconnection agreements (such common reliability and market operating instruction) regarding energy and capacity transactions.

Project Permits and Approvals

- On June 26, 2017, Canada's National Energy Board (NEB) issued a Certificate of Public Convenience Necessity for the ITC Lake Erie Connector project.
 - The issuance of the Certificate of Public Convenience and Necessity completes the project's major permit application process in Canada.
- On May 25, 2017, the Pennsylvania Department of Environmental Protection issued two required permits for the project: a State Water Obstruction and Encroachment Permit, and a National Pollutant Discharge Elimination System Permit for Stormwater Associated with Construction Activities.
 - The issuance of the above permits completes the project's major permit process in Pennsylvania.
- In addition to the above approvals, ITC has received a Presidential Permit from the U.S. Department of Energy, which is necessary for international border-crossing projects.
- Outstanding major project milestones include receiving approval from the U.S. Army Corps of Engineers, completing project costs refinements and securing favourable transmission service agreements with prospective counterparties, after which ITC would proceed with construction.