MINISTER OF FINANCE APPROVAL OF
IESO'S UPDATED TREASURY POLICY

ISSUE

As prescribed under Ontario Regulation 280/14 ("Regulation") under the *Electricity Act,* 1998, the IESO has submitted an updated IESO Treasury Policy ("Treasury Policy") for the Minister of Finance's approval.

- Under the Regulation, the IESO is required to maintain investment, borrowing and financial management policies and procedures.
- The Treasury Policy was last approved by the Minister of Finance in 2015.
- Under the Regulation, the Minister of Finance may approve the proposed statement or refer it back to the IESO for further consideration. If the Minister of Finance does not approve the proposed statement and does not refer it back to the IESO for further consideration within 60 days, the Minister shall be deemed to have approved the IESO's proposed Treasury Policy.

RECOMMENDATION

OFA staff have reviewed the changes proposed to the Treasury Policy and recommend that it be approved.

- The changes proposed would permit IESO borrowing facilities to be used to ensure funding of any amounts resulting from or required under the *Ontario Fair Hydro Plan Act, 2017* ("OFHP Act").
- No fiscal costs to the government are anticipated from the approval of the proposed updated policy as the IESO will continue its operations and cost recovery under the OFHP Act and from the Ontario Energy Board.

KEY CHANGES IN THE TREASURY POLICY

The revised Treasury Policy incorporates the following two changes:

1. Permit borrowings to ensure funding of any amounts resulting from or required under the *Ontario Fair Hydro Plan Act, 2017*.
    - This change is a result of the recent passing of the OFHP Act.
2. Increase counterparty exposure to Schedule A Canadian Banks from the current $420million to $500 million, an increase of $80 million exposure per counterparty.
    - This ensures that the IESO has flexibility to efficiently manage its cash accounts as evolving business requires IESO to manage increased levels of cash flows and seek appropriate short-term investments.

CONSIDERATIONS

- On May 31, 2017, the government passed the OFHP Act to enable the implementation of the Ontario Fair Hydro Plan, which will lower electricity bills by 25 per cent on average for eligible residential customers. Eligible farms and small businesses will also receive benefits (essentially for those eligible for the Regulated Price Plan).
- Under the OFHP Act, in the early years of the plan a portion of the Global Adjustment charge to ratepayers will be deferred for recovery to the future and the IESO will incur a monthly funding shortfall, as.

- The IESO under the OFHP Act has a right to recover the deferred charges (or "regulatory asset"), which is expected to be sold by IESO to a financing entity established by OPG.
- Although IESO will not need long-term borrowing for its role in this process, it is expected to need short-term financing.
    - There is expected to be initial and ongoing IESO cash flow requirement timing differences.
        - The OPG SPV is not anticipated to be established and able to borrow to finance the purchase of the regulatory asset from the IESO until later in 2017 (planned for later in summer 2017; however, exact timing is subject to actual implementation).
        - Even once the SPV is set up to borrow, there is expected to be timing differences between the IESO's monthly settlement process when it has to pay generators and when the SPV purchases the asset from IESO.
        - Also, under the legislation, OPG's SPV is not required to purchase any portion of the regulatory asset.
    - The IESO is expected to enter into a revolving credit agreement with the Ontario Financing Authority to manage these cash flow timing differences.
- Furthermore, the IESO, as a settlement agency, collects funds from electricity users and makes payments to generators, transmitters and conservation programs. These balances are deposited in accounts for a period ranging from a few days to a few months. Interest revenue is earned by the IESO.
    - IESO has stated that since the market price of electricity has increased since 2014 by 16%-19%, it has resulted in IESO managing increased levels of cash flows. This larger limit allows IESO to better manage these increasing cash flows.

BACKGROUND

- The IESO and the former Ontario Power Authority (OPA) merged on January 1, 2015, into an amalgamated entity, also called the IESO.
- Prior to the amalgamation, the IESO was not subject to any regulations pertaining to its borrowing and investment activities. However, the former OPA was subject to Ontario Regulation 423/04 which provided oversight on the OPA's investment and borrowing activities and required that the OPA submit to the Minister of Finance its Treasury Policy, and any subsequent changes, for approval.
- In December 2014, Ontario Regulation 423/04 was repealed and replaced in December 2014 with Ontario Regulation 280/14 which outlines the specific parameters governing the IESO's investment and borrowing activities.
- On June 15, 2015, LRC and Cabinet approved amendments to Ontario Regulation 280/14 to allow the IESO to continue its normal business operations including continued investment in securities that have been issued or guaranteed by the federal US government, manage foreign exchange risk, and continue managing its pension plans as it has in the past without any additional restrictions.
- Given that the IESO's financial results are fully consolidated on the books of the Province, and that the IESO has credit facilities with the Province (through OEFC and OFA), the regulation is intended to provide the Minister of Finance with oversight over the financial investment and borrowing plans of the amalgamated entity.

- The regulation also allows the IESO to borrow for general corporate purposes (which includes borrowing for pension contributions, capital expenditures, etc.), consistent with the terms of its credit facility with the Ontario Electricity Financial Corporation (OEFC).

Corporate and Electricity Finance Division, OFA
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