IESO FAIR HYDRO PLAN CREDIT FACILITY
MINISTER OF FINANCE LENDING DIRECTIVE

The Independent Electricity System Operator (IESO) has requested a revolving credit facility in an amount of up to $2 billion from the Ontario Financing Authority ("OFA") to support its role in the implementation and participation under the *Ontario Fair Hydro Plan Act, 2017* ("OFHP Act"). To accommodate this request, the OFA requires a Lending Directive from the Minister of Finance.

- The IESO is requesting the credit facility be in place by July 1, 2017, with an initial term of 5-years plus a contingency of three months (effectively expiring on September 30, 2022).

RECOMMENDATION

- OFA staff recommend the Minister sign the Lending Directive allowing the OFA to lend to the IESO.
  - This will help the IESO to fulfil the commitments under the OFHP Act as the IESO will have to finance short to medium term funding shortfalls in the implementation of the Fair Hydro Plan.

MINISTER'S DIRECTIVE

Minister of Finance's Lending Directive would authorize the OFA to provide a revolving credit facility in an amount of up to $2 billion with a maturity date of September 30, 2022. The Lending Directive will also include the following conditions:

- The interest rate charged to IESO on all advances will be based on the Province's cost of funds plus a twenty-five basis point (0.25%) spread, consistent with the spread for current and past OFA credit facilities for the IESO.
- The credit facility agreement shall be subject to such other terms as the OFA deems appropriate from time to time.

FISCAL IMPACT

- There would be a relatively small but positive fiscal impact for the Province as a result of this credit facility.
  - The Province receives a small fiscal benefit by adding 25 basis points (i.e., 0.25%) to the Province's cost of funds provided to the IESO under the facility, which should more than offset any administrative cost impact on the OFA and Province.
  - The actual amount is expected to be small, as the IESO is expected to make draws for short periods to bridge brief timing differences in cash flows.
- Both the IESO and OFA are consolidated with the Province on a line by line basis. For the OFA and the Province, costs associated with the credit facility are recovered from the IESO. For the IESO, principal and interest associated with the credit facility are ultimately recovered from electricity ratepayers.
  - Notwithstanding this, recovery from electricity ratepayers is determined by the Ontario Energy Board. If IESO cannot sell the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, to a financing entity as per the Act, the IESO will have this revolving debt that can only begin to be repaid once ratepayers begin to pay down the deferred Global Adjustment amount.

DETAILS AND ANALYSIS

- 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, the IESO will incur a monthly funding shortfall in the early years of the plan, as a portion of the Global Adjustment ("GA") charge to ratepayers will be deferred to the future.
- During this period, GA amounts collected from ratepayers will, therefore, be insufficient to fund the IESO's contractual obligations to electricity producers and service providers.
- The OFHP Act gives the IESO the right to recover those deferred amounts from specified consumers in the future (the "regulatory asset") and the ability to sell the regulatory asset (i.e., the right to recover the deferred amounts in the future) to a financing entity.
  - It is anticipated that the regulatory asset will be purchased by the financing entity to be established by OPG ("OPG SPV", an OPG special purpose vehicle or trust).
  - The cash received from selling the regulatory asset will be used by the IESO to fund the incurred GA shortfall.
- IESO is expected to need short-term financing to manage initial and ongoing monthly 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, which could result in longer than planned IESO draws on the credit facility.

<u>Current Status</u>

- An existing credit facility between the IESO and the OFA is currently available for $975 million, which includes support for the current Regulated Price Plan (RPP) program. The IESO has proposed that a separate and additional credit facility be provided to support only the FHP credit needs. A separate facility for the FHP is preferable to ensure operational efficiency and tracking of related interest costs.
- As a result, the IESO has proposed to reduce the current $975 million credit facility by $500 million and create a new FHP facility in the amount of $2 billion.
  - The $500 million reduction in the current OFA facility is to eliminate duplicate credit needs and reflects that the FHP prices for eligible consumers is being implemented through the setting of prices under the RPP.
  - Specific terms of the agreement are being negotiated between the IESO and OFA.

	Existing OFA-IESO Facility	**New Proposed OFA-IESO FHP Facility**
Current Credit Facilities	$975 million	-
Reduction due to FHP	($500 million)	-
Increase due to FHP	$ -	$2,000 million
Total Credit Facilities	**$475 million**	**$2,000 million**

BACKGROUND

- The IESO is a not-for-profit corporate entity established in 1998 by the *Electricity Act, 1998*. It is governed by an independent Board of Directors and its Chair and Directors are appointed by the Province.
- The IESO has full statute-based authority for establishing, monitoring and enforcing reliability standards in the province. All the companies that make up the power system in Ontario must meet the IESO's standards.
- Its fees and licences to operate are set by the Ontario Energy Board and it operates independently of all other participants in the electricity market.

Electricity Finance Branch / Corporate and Electricity Finance Division
Ontario Financing Authority
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