REQUIREMENTS FOR THE OFA TO LEND TO THE IESO

IESO staff have noted that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. The legislation does not compel the Trust to purchase 100% of the regulatory asset at any given time.

As the OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to $3 billion [TBC].

The use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
$3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:

OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan

Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

It is recommended to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

Corporate and Electricity Finance Division, OFA
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