FHP-conference - LSB; Steve

Date June 7/17.

-Mike: met w/ OPG re performance measurement. Agreed to use atty ~~measure~~ approach ie forcast (Canada $) for 2018; have dealers provide wkly forcasts for spreads & come up w/ cost estimate; then compare actual agn forcast.
- didn't talk about guarantee
- want guarantee structure in place for meeting w/ rating Agencies in July.

Steve: non specific ie ⇒ puts OPG as financing entity the actual financing very general.
Approach makes sense but caution to be applied.
implementation legislation not yet in place.
structure: piling unmet funding shortfall + pushing repayment way in the future possibly \$200m - \$300m per tranche.
Finding mismatch in finding a place for this in the mkt place (won't find 10y asset back securitization in the mkt place)
Risk - no legal ability to pass through liab to rate payers until the curve flattens ∴ refinancing risk. This risk is huge if we don't flatten the platform of buyers for this. Select mkt so when it comes time to refinance ⇒ they will have a heavy hand.
Aim: flexible & open structure
so maybe put out this deal like a pension 'like' vehicle.
ie PSP (Cdn $ 10yr investor)
* Conversation w/ Rating Agencies - possibly -
Gov't has understanding that there is a performance guarantee in backing IESO (not the LDCs)
Note OPG will be the holder of sub notes & sub notes will price above the senior notes.
Natural tension: rate payers will pay whatever is needed.

(1) Provide a foundational document: Performance guarantee promise by gov't to stand behind - IESO re: , Billing, remittance fn of IESO extending to IESO's covenant to LDC.

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(2) True-up structure - investor if not enough $ flows through, we catch it up in the next mth.
- remedy shortfalls, remittance support is what TD will say people will be buying.

The last ratepayer standing will have a huge amount owing if no one else pays.

Risk gov't takes the guarantee away - via legislation or otherwise ∴ payment guarantee kicks in.

If Gov't does "bad things" OPG wants the debt to become the gov't or allow a put → why would you neg. that today?!!

(1) Robust performance guarantee ($ flows from customer to the right box) rate payer ⇔ LDC ⇔ IESO
(2) Bullseye Payment guarantee (that allows true up in a very limited way assuming the gov't completely reverses this structure).
Advises against a put!

Go to rating Agency when the picture is solidified (so they can't retract). Rating can't be done until the most basic thing is done
ie (1) regulation (maybe developed over course of summer)
(2) financing plan.

AAA is risk free! Above an Ont bond!
In Structured finance what you don't neg. w/ rating Ag. You go ready to be rated.

- Our role is to fill a contingent gap not just to pass along pmts from the bond.
- Gov't s/not cover if its papered wrong
- Until you know what the servicing is to be provided, why would the gov't cover.

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Senior Sub structure - unclarified right now.

performance guar. is at the asset level (not the debt level).

Financing entity s/get the guarantee not the "investor" ie indenture trustee.

Prov ~~OFA~~ to investment in OPG via equity - Prov investment diluted in the equity of OPG.
(ie MOE)

Ken OPG issuing a different class of shares (B.V.) & so Prov. shares keep increasing if OPG ~~stock~~ share price ↑
if OPG shares ↓ there is a loss to be recognized but offset ~~by~~ somehow.
to be redeemed at the then current B.V.

Steve: Avoid openended sentences in the drafting
Talk about details that addresses the reality currently, w/ the understanding that this is hypothetical.

Everything is channelled through the trust indenture

3 (1) performance guarantee (term sheet level OK)
(2) AAA senior security provide covenant to the extent the law changes (remove opportunistic investor from stepping in!)
(3) ~~$~~

NO - standby liquidity for mkt disruptions

CF - covers funding rebates; funding shortfall.

OPG is asking for an indemnity for their directors/officers of OPG as well for SPV ⇒ they s/be protected against vicarious liability so not clear why they want this.

* OPG wants independance to operate w/ autonomy but wants = Not responsible for anything that goes wrong.

OIC re: OFA/IESO – Fair Hydro Plan Act. Date May 23/17.

Bill 132 Act proposed – being 'read' now by July 1/17. LRC & Cabinet date June 27th.

* Due date for loan needs to go into the OIC.

Minister's Directive – OFA legal & LSB as FYI.

Credit Facilities to be amended $975M to be reduced to $475M

New credit facility to be put in place for ~~[illegible]~~ $2B

OICs to provide $3.5B of authority for OFA to lend to public bodies ie IESO. $1.5B buffer included. (not clear why)

So ≃ $3B OIC will be needed which will provide sufficient authority for IESO w/ a buffer which can be used by other entities

Provincial Support Agreement

Date May 2017

F/u meeting w/ MOE legal, Energy Legal & Blakes. as well as Tory's /Osler's.

Beneficiaries:

Trust has a # of c-part to support the transactions.

Guarantee protects all parties; guarantee provided to trust (everyone involved in transaction).

Get ~~a~~ more info re: trust indenture & add notes to file.

Term: depends on the ~~underlying~~ transactions.

Why is guarantee ~~paid~~ extended after everything is paid.

Guarantor: S/be both the MOE & MOF should be listed.

Performance guarantee: MSSA doesn't exhist

S/be making sure collection takes place

- guaranteeing that LDC handling funds properly & no commingling of funds - but we have no authority over LDC.

This is already incl in pmt guarantee.

- make explicit that any replacement guarantor.

- not clear what this means ie last paragraph in this section.

Payment Guar.:

Needs to be able to access ABCP mkt. if no moritorium & can't fund does this still hold?

Planning to use short term (ABCP) for warehousing & Long term to back-stop liquidity req't.

Section (y): why is Put included? Expected based on mkt. There will be a haircut but the bonds should be marketable. Ask for Put to be removed.

Subrogation: Legal issue may need following up as depends on structure to trustees etc.

⇒ Objective determination about trigger better than subjective.

Date May 31/17.

Malle & Toby re: Conversation w/ Blakes.

Term sheet too preliminary; Master Trust Indenture s/be done 1st.
Performance guar.: typical in finance offering to make sure mech + process works; also w/ parent & subs relationship this is common - though this is not truly a parent/sub relationship.
NO direct relationship w/ LDC

- Language vague on guarantee
- Put not a good idea; ~~and~~ nor is mkt disruption not appropriate & may be called on via the guar. too often.
- Tom Kinley also at the meeting
- f/u w/ TD, Blakes etc to ~~s~~ determine timing & what actually needs to be done.
- seeking AAA rating - but not discussed.

Maybe in regs. - true-up - ratepayers default to LDC then ratepayers pd. more to cover the cost.

Debt transaction may not be until Nov or so.

Next Week { - Meet w/ Energy + rest of Prov 1st } trying to establish the
" " Prov & TD 2nd } req'ts of this

*News release: backgrounder. w/ info about guarantee

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