From:	HAHN PARKER Janet -TREASURY
To:	Gadi Mayman; Scott Nelms (ENERGY); LEE John -TREASURY; RYFA Ken -TREASURY; "Persaud, Donnie - Debt Capital Markets"; Benaiah, Ian; "Montgomery, Kaitlin (MOF)"; Anna Strathy; Carlos Yep; "Cindy.Veinot@ontario.ca"; Mike Manning; Steen Hume (CAB); Niehaus, Katrina
Cc:	Maciel, Andrew; Khan, Nur; Ken Kandeepan; Ronald Kwan
Subject:	OPG - FHP - Guarantee Meeting and Conference Call
Start:	Thursday, August 10, 2017 2:00:00 PM
End:	Thursday, August 10, 2017 3:00:00 PM
Location:	OFA Offices, 1 Dundas St West., 14th Floor
Attachments:	ATT14600 1.jpg disclaimer.html

When: Thursday, August 10, 2017 2:00 PM-3:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: OFA Offices, 1 Dundas St West., 14th Floor
Note: The GMT offset above does not reflect daylight saving time adjustments.
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Meeting Location Updated: 1 Dundas St., West, 14th floor
Attendees please call Hresa at 5-8002 to gain access to the Executive Boardroom on the 14th Floor
Toll-free dial-in number: 1-866-602-5461
Local dial-in number: 416-212-8011
Conference ID: 4717656

Please come to OPG's office, 18th floor. We will meet you at the Glass Doors.
No pass required.
Thank you.
Notice Updated: August 9 @ 3:40 - see the following e-mail

From: Adalja, Sunil [<mailto:Sunil.Adalja@cibc.com> mailto:Sunil.Adalja@cibc.com]
Sent: Wednesday, August 09, 2017 3:28 PM
To: LEE John -TREASURY; RYFA Ken -TREASURY; WONG Leslie -LAWDIV
Cc: Persaud, Donnie - Debt Capital Markets; 'Niehaus, Katrina'; 'Turnbull, Vickie'; 'Sebastiano, Rocco'; 'Milligan, Peter'; 'Smith, Elliot'; 'Khan, Nur'; Alvi, Shariq; 'Delaney, Brian'; 'Benaiah, Ian'; Persad, Nicole; 'King, Richard'; Hume, Tyler; D'Angelo, Paul; Stoddart, Jesse - Debt Capital Markets; 'Fullerton, Rick'; Maciel, Andrew
Subject: EXTERNAL – RE: OGP/Fair Hydro - Provincial Guarantee
*** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. ***
<rtfimage://>
John, as discussed, below is our summary for the discussion with the Province –
Thanks, Sunil.
Change in Law

* We are okay with the province assuming the financing obligations of the Financing Entity ("FE") with no early redemption rights (by either the province or investors) in the circumstance of a Change in Law.
* We note that in the US, the potential downgrade on the bonds once the province steps could result in the bonds spreads widening, which would result in losses for US investors. US investors would expect to be compensated for that risk (either through a pre-determined step-up in pricing when the province assumes the obligation, and/or through a premium they would require for this risk when purchasing the notes initially).

Approval Process

* The province (OFA) will want to see the form of the various program and series documents that will be captured by the guarantee/support before approving any guarantee. As long as the documents are in the agreed form, they would NOT need to provide specific approval for each series.
* We understand that Provincial control of the financing program would eliminate OPG's consolidation of the Financing Entity so Provincial approval of transaction terms needs to be avoided.
* Since the financing documents cannot affect how or when the Provincial Guarantee is triggered (Change in Law and Constitutionality of the Program) then specific Provincial approval of transaction documentation would be seen as exerting control and must be avoided.

Warehousing Risk
* The issue is the moratorium period and the length of time for the warehouse provider to be taken out if there is an extended period of time where the program can no longer be funded in the term markets
* Option here if the warehouse providers are to absorb the risk is:
o On default, pricing would step up materially
o After [one] year following the moratorium ended, pricing would step up again and would continue to do so every 6 months until the warehouse is repaid
o This mechanic helps compensate the warehouse providers to the extended tail risk in this transaction and creates alignment of interest
* The warehouse providers cannot control the maturity of other pieces of FE debt issues. The step up schedule incents the financial manager to ensure that there are no competing maturities (so that the warehouse provider can be repaid as quickly as possible) during the first few years after the moratorium period ends
* This would be subject to banks receiving necessary approvals as the tail risk is longer than anticipated. That process will require a greater understanding of how long the tail could be (i.e. how quickly could we be repaid through clean energy adjustments after the moratorium period has ended)
* The higher pricing will result in higher clean energy pricing during this default scenario. As an alternative to letting the warehouse provider being repaid over time through these clean-energy adjustments, the province could voluntarily choose to purchase a term note to take out the warehouse provider
* The province could resell that note in the secondary market if that market opens
* Assuming there are other series of notes outstanding by the FE that are sold to others, the province may need to confirm whether there are consolidation concerns from being an investor in the FE (and if so, what threshold of notes would result in that consolidation risk)
* The province is not obligated to purchase notes in this scenario, this is just an option they would have at their disposal if they did not want to clean energy adjustment amounts (and hence charges to ratepayers) to increase because the default pricing
* Other options

o IESO provides the warehouse instead of the banks – note that this will likely be limited based on the size of the IESO's credit facility. If there is a prolonged period of market disruption, then this credit facility will likely fill up fast and at that point the Province will likely have to increase the facility or backstop further rebates --> essentially under a market disruption, the Province may ultimately have to backstop the funding. Based on this, it may be preferable for the Province to provide a market disruption guarantee to the short-term ABCP facilities?
Servicing Guarantee
* The substantive risk not addressed through regulation/legislation/contract so far is commingling risk
* In general, the rating agencies require daily cash remittance of any collections for non-investment grade entities unless a suitable mitigant is in place
o The investment grade test will generally need to be by the same rating agency rating the FE debt
* (E.g. if an entity is not rated by Moody's, but is rated investment grade by DBRS and S&P, and the FE debt is rated by Moody's, Moody's may not consider that entity to be investment grade and may not permit them to commingle)
* Fitch often gives an exception for this where they may allow commingling for investment grade entities even if Fitch does not rate that counterparty
o This should not be an issue from IESO perspective, but can be an issue from an LDC perspective
* The majority of the LDCs are not
* Rating individual LDCs by each of the rating agencies that rate the FE debt will be time consuming and expensive and is not a viable option
* Proposal would be for IESO or another highly rated entity to post a L/C facility to mitigate the servicing risks of the LDCs and thereby avoiding any review of the LDCs by the agenciesand avoid daily cash remittances for any LDC assessed to be non-investment grade
Sunil Adalja | Executive Director, Securitization | CIBC Capital Markets | CIBC World Markets Inc.
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