Ontario Fair Hydro Plan
Short-Term Financing Comparison

July 11, 2017

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- The regulatory capital groups at CIBC and RBC have independently determined that any debt issued by the Financing Entity (“FE”) to that bank would be considered a securitization exposure
  - For that reason, any funding provided to the FE by the banks will be subject to the securitization framework under OSFI’s Capital Adequacy Requirements (“CAR”) for determining risk-weighted assets (RWAs), regulatory capital and the liquidity coverage ratio (“LCR”) requirements for SPVs as set out in OSFI’s Liquidity Adequacy Requirements (“LAR”)
- This determination is based on the structural features of the FE including:
  - Recourse for any funding obligation issued by the FE is solely to the Regulatory Assets acquired by the FE
  - Cash flows on the Regulatory Asset are to be recovered from multiple specified ratepayers and will be used to service the debt
  - No other entity (e.g. Province of Ontario, OPG, IESO, OFA) is providing any credit guarantee on the funding obligations issued by the FE
    - Note that a springing guarantee proposed to be provided by the Province was not viewed as a credit guarantee
- A traditional bank credit facility does not fit well under the Securitization Framework
  - Risk adjudication, credit analysis and modelling falls under the securitization process rather than traditional corporate credit analysis
  - As this is a unique asset class, two external ratings are going to be required for on-balance sheet funded securitizations so that banks can calculate RWA/capital under OSFI’s CAR guidelines
  - The LCR is more punitive for securitizations than for corporate borrowers
    - LCR requires the banks to hold high quality liquid assets (“HQLA”) against any outflows during a 30-day stress period
    - LCR would assume a 100% draw on the available commitment for a securitization vs. 30% for a borrower such as OPG or Lower Mattagami which are classified as corporate borrowers, so 2.5x HQLA may be needed
    - This is partially mitigated in a securitization through the use of delayed funding language which gives banks the option to delay funding by up to 33 days, so it falls outside the LCR window
      - The portion of the facility not subject to delay funding would have 2.5x the HQLA requirements
- Over the subsequent slides, we have shown indicative terms and pricing for warehouse facilities that can be funded in the bank-sponsored ABCP conduits as well as on the bank balance sheets
  - The bank balance sheet pricing is typically higher for securitizations as the banks’ treasury groups charge the respective banks’ funding cost based on the term of the commitments
  - ABCP conduits fund in the commercial paper market, with an ABCP backstop facility provided by the bank. The charges for the ABCP backstop liquidity facilities tend to be lower than for direct on-balance sheet funding

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- The table below outlines the key differences between bank-sponsored ABCP conduit and bank balance sheet financing arrangements

Characteristics	Bank-Sponsored ABCP Conduit	Bank Balance Sheet	Comments
Borrower	• FE	• FE	
Deal Size (Range)	• C$1.0 - 1.2 billion	• C$1.0 - 1.2 billion	• Flexible based on OPG's requirements
Lenders	• Lead Banks, remainder of Big 6 Canadian Banks that sponsor ABCP conduits, and banks that do not require ratings (e.g. US Banks)	• Lead Banks, likely other banks in OPG's syndicate	• Facility can be structured to accommodate both ABCP and balance sheet Lenders; may require both short-term and long-term ratings
Pricing[1]	(bps) / 1 Year / 2 Years Benchmark[2]: ABCP COF / ABCP COF Drawn: 80 / 90 Stand-by: 35 / 40 Upfront: 10 / 20	(bps) / 1 Year / 2 Years Benchmark: 1M/3M CDOR / 1M/3M CDOR Drawn: 100-115 / 110-125 Stand-by: 35 / 40 Upfront: 10 / 20	• Basel III is expected to be implemented in January 2019, at which time RWA and capital are expected to increase from current levels which could increase pricing at such time
Tenor	• Committed up to 2 years	• Committed up to 2 years	• ABCP commitment is provided by the conduits and backstopped by the Lenders. Balance Sheet commitment is provided by the Lenders
Security	• Secured by regulatory assets acquired by the FE	• Secured by regulatory assets acquired by the FE	• No difference between the facilities
Funding Mechanics	• No additional approvals during commitment period; typically [3]BD notice • 1-month capacity ($ limit TBD) will not be subject to a delayed funding option, balance subject to delay funding for up to 33 calendar days	• No additional approvals during commitment period; typically [3]BD notice • 1-month capacity ($ limit TBD) will not be subject to a delayed funding option, balance subject to delay funding for up to 33 calendar days	• To mitigate LCR costs, Lenders typically have the right to delay funding for 33 days, but in light of the monthly IESO deferrals, 1-month capacity ($ limit TBD) will not be subject to delay. Note that such delayed funding option language is typically not included in corporate banking facilities as the LCR and hence HQLA impact is lower than for securitization facilities

[1]Pricing subject to provincial support for market disruption, if not in place default pricing to increase. Indicative spreads subject to approvals.
[2]ABCP is issued over a variety of tenors from overnight to 364 days. Typically the 1M ABCP Cost of Funds is inside 1M CDOR, however the weighted average ABCP Cost of Funds for a conduit vs. 1M CDOR is currently higher due to term structure of ABCP issued.

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Characteristics	Bank-Sponsored ABCP Conduit	Bank Balance Sheet	Comments

External Ratings	• Rating affirmations from DBRS and Moody's of the conduit programs
	• Cost:
	  ○ Moody's upfront fees are expected to be $47,000 for the first conduit and $23,500 for the second conduit
	  ○ DBRS upfront fees are expected to be $25,000 + 1.5 bps x Deal Size
	  ○ Banks will pay the ongoing rating agency surveillance fees for the ABCP Conduits (other than program specific amendments)
	• Diligence:
	  ○ In-depth review of the Borrower's/ sponsor's fundamentals, operating performance & material agreements/structure of the transaction etc.
		• Requirement of two public term ratings
		• Cost:
		  ○ Moody's upfront fees are expected to be 4.0 bps x Deal Size, with a charge of 0.5 bps on any portion of the Deal size >$1.0 billion
		  ○ DBRS upfront fees are expected to be 2.0 bps x Deal Size + $50,000
		  ○ Moody's ongoing annual surveillance fees of $7,500 paid by the FE
		  ○ DBRS ongoing annual surveillance fees up to $60,000 paid by the FE
		• Diligence:
		  ○ In-depth review of the Borrower's/sponsor's fundamentals, operating performance & material agreements/structure of the transaction etc.
			• Rating Agency fees will be confirmed by the Rating Agencies as part of the engagement process but are consistent with their published fee schedules
			• Rating fees for balance sheet funding option materially higher than ABCP

Timing	• 6 to 8 weeks, from launch to close	• 6 to 8 weeks, from launch to close	
External Investors	• ABCP investors	• N/A	