Maksymuik, Amanda (ENERGY)

Subject:	Ontario Fair Hydro Plan
Location:	199 Bay St. - 40th Floor, Blakes
Start:	Fri 04/07/2017 10:00 AM
End:	Fri 04/07/2017 2:00 PM
Recurrence:	(none)
Meeting Status:	Accepted
Organizer:	Calwell, Carolyn (ENERGY/MEDEI/MRI)
Required Attendees:	Rehob, James (ENERGY); Shear, Dan (ENERGY); Kacaba, Jennifer (ENERGY); Leslie.Wong@opg.com; 'MCAULEY Tyler -LAWDIV' (tyler.mcauley@opg.com); 'Michael.Boll@IESO.com'; JUDY.WILSON@blakes.com; Stephen.Ashbourne@blakes.com; Bryson.Stokes@blakes.com; DICKS, LINDSAY (LINDSAY.DICKS@blakes.com); Michael.Boll@IESO.ca
Optional Attendees:	Mary Anne Aldred (MaryAnne.Aldred@oeb.ca); Martine.Band@ontarioenergyboard.ca; 'Martine Band'; 'Ramchandani, Rima'; 'Feldman, Michael'; 'Alan Hibben'; 'Mansoori, Nina'; 'Myers, Jonathan'; 'Hill, Krista'; 'Glenn Zacher'; 'Peter Hamilton'

Update

This meeting has been shortened from 4:00pm to 2:00pm.

Hi Everyone,

This will be a meeting to discuss the Ontario Fair Hydro Plan (OFHP) and will include Blakes, Torys, OPG, IESO, and Ministry Counsel.

The meeting will be held at Blakes and the main contact on site will be Lindsay Dicks (416-863-4347 or Lindsay.Dicks@blakes.com). Please inform Lindsay if there will be additional people attending from your group because she will need to pass this information along to their security desk.

To the representatives from OPG and IESO, please forward this meeting invitation to your respective outside counsel for their attendance.

Any materials available for this meeting will be provided in a future update.

If you are unable to attend in person, please use the following conference call information:

Toll-free dial-in number: 1-866-633-1033
Local dial-in number: 416-212-8013
Conference ID: 3164921#

If there are any additional scheduling needs or updates, please contact Joseph Pau (416-326-1018).

Thanks,

Meeting of Brokers re. Trusts   March 8/2017

Peter Hogg QC

- trust - relat. where one person holds legal title to property but not beneficial owner
  - analysis from to basic trust concept
  - settlor - person who creates trust
  -
- trust is relationship - not just entity
- keep calling it a trust - ques unprecise
  - everything trust does is in the name of trustee
- use of trusts in US president
- personification - of courts to be avoided.

(common) legal construct treated as person.

- tondit of trusts - continues in fastpoint
  - trustee has legal personality
- tarnit evolves - for lending of his property
- capital rights - beneficial interest is narrel.
  - in case of securitization -
  - if $100 trust property - $100 of debt obligation
- being equal level of equity
eg: - $10,000 charitable interest
- tundit. reason to differentiate is tax on accounting
  - in first instance
  - not tundit. applied at law of trust
  - at root, when go to court - bedrock - trustee is legal person.

Trust vs. S.P.V. →.
- bankruptcy - isolate entitlement of global property - take away from owner - hold in legal.

- lots of securitized. trusts
- trust doomed to ~~to~~ taxpayer or if you don't structure inflows & outflows

- ~~trust~~ with three issuers all see trust.

-

Q - securitized trusts - designated held by nominee charity or group of charities
- very little equity value
- debt holders own property residual property owned by beneficiary
- to better order claims - trustee grants priority interest?

Slide 3 - historical cause of securitization - finance agencies
- trustee delegates authority to enterprise - sponsor - for who benefit structure

- tension - can't delegate quality
- trustee entrusts w/o impact on OPG - OPG can be replaced
- trustee holds such power to make decision.
- trust asset - like a receivable.
- benefit of asset - owned by all of us - clear.
- if it was the gov't - if forced to cover contingency - that obligation is a weak link - below average in general quality

Q - more discount. gov't has - in terms of legislat. audit authority vs. having different approach.
reduces quality.

- attributes of receivable.

e.g. contemplate use in legislation.

Nature of obligation - quality of receivable
- Early term more favorable to GA better off in the

- could be proviz - catastrophic 2 changes deemed necessary -

NY example - pro-rata.

- you are creating necessarily
- market likes going ahead.

→ Q. Trust dollar to bucket A vs bucket B
- rating methodology - Moody's
- OCB role
  - want to keep them out
  - function on OCB - protect interest of bondholders to ensure covenants made by bondholders in force.

- alter structure contract - implement. & enforcement of contract
  - implement. of process
  - many cases to bottom

- to extent gov't wraps around this - unenforceable -- ? threshold lines -- covered

Q - anything could do w/r to LDC's
  - whether could bolster

A - assume LDC wealth

- need to have adjustment mechanism to capture costs
- US does have annual true-up
- ultimately investors bring claim against pay-out
- investors necessarily bear risk
- (LDC's) entities will be part of cred.)

Q -

- trust is STU.
- co ownership structures/.

Activity
① de-recognit of assets
② consolidation of assets

- normal rules - if don't own entity can't consolidate
  - if there sits outside someone else - controlling party has to consolidate.

- if affect purchase decision vs. different mix

- what to protect O&G assets
- how to take legislative construct & sell.

- KESO has asset for its benefit.
- OPG finances from - KESO.
↳

- we are selling non-performing asset to beneficiary

—

62-33.7. KESO may sell
- OPG ~~[illegible]~~ is empowered to create what CE need to buy.

—

- [illegible] facility - 25 [illegible]

2 - if GA is obligat. created by statute - are we, [illegible]

-

BS –

(what does utility need to see)

US Examples

1. whether utility, bss for ratepayers than what they would have to pay.

- issue – restructuring cost order

- for $3.5B first

- authoriz. creat. of rate

- road prop to get approval

- individuals could challenge bond w/i 30 days

- how property defined?

– order had to be irrevocable

– question of changes | ?

non-by-passability of charges;
- consumers can't come up w/ ways of getting around charges.

- even if fully self generate

- indicium of true sale.

state pledge - agrees will not undo or amend by making legis changes

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Q whether happened in NB - 15 yrs ago.

Opt. ① legis - fortheming.
② legis invalid.

- how much political noise is found?

Tax.
① Quantum
② Tryng to vest'd life of asset
↳ expert words

- principle of proportionality
have to we show rightly some value

- in normal course - if fails buy back asset at fair value.
- obligat'l to back up reps & warranties

- more than mere to chance it's a tax - need to get structure right

- need finance level opinions its a good test

- would have to be disclosed when selling bonds
  - risk factor that would be disclosed which would make hard to sell.
- if there is a way to [illegible] to get people comfort

- Goal - to [illegible] not a tax.
  - it need a backstop so that doesn't create a problem

① initial [illegible]
② [illegible] in law
- if can get [illegible] opinion not a tax - [illegible] backstop on basis of that globally

Contr - docs
① legis.
② continuity w/ duties

- rating agencies already picked up w/ this

- interested in whether legis will understand

- wouldn't pass if can't determine

- is based - "true sale".

- if do analysis, then need to restructure asset to somebody else - that gives some disenfranchment of property rights

April 9 - legis GA - 2 committee

Delaurablen
① entities to struct. } - offic leaky
② transact.
③ legislat. } → legis bill checklist of what need to see

- sounds like amortizing value of property

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eg M: - appropriate assets - say gov't leases SPV entitled a part of assets

- partial assignment of contract.

TR: - tie through commitment - so that lenders

- re-amortizable of property

Take - Steve advice - on

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RATING METHODOLOGY

Moody's Global Approach to Rating Securities Backed by Utility Cost Recovery Charges

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1. Scope

This methodology describes our global approach to rating securities backed by utility cost recovery charges ("UCRC" bonds) that are established by special legislation and financing orders issued by utility regulatory bodies. The charges backing UCRC bonds rated by us have been established by state legislation and state utility regulatory bodies in the United States. For UCRC bonds backed by charges authorized by other jurisdictions, we will analyze the specifics of the securitization's legal framework and regulations – and their implications for the quality of the protections afforded to investors – within the general methodology described in this report.

Examples of cost recovery charges include those imposed to cover certain costs of utility companies that had been incurred in a regulated environment but could no longer be recovered because of a change to a more competitive regulatory regime (i.e., charges sometimes referred to as "stranded utility charges") and those imposed to pay for environmental cleanups, clean energy or for the replenishment of reserves established for repair of facilities damaged by natural calamities, such as hurricanes or tornados.

2. Executive Summary

A utility cost recovery charge bond is a bond typically issued by a special purpose entity of a utility, or by a special borrowing conduit, to recover specified costs as authorized by special legislation and a specific financing order issued by a public service utility regulatory body. The bonds are backed by a property right created by the legislation, which provides the right to impose and collect special charges on customers' monthly electric bills.

This credit rating methodology was republished on June 22, 2015 containing an updated monitoring section and minor other editorial updates in the body of the text and in certain footnotes. The content of this Credit Rating Methodology has not been changed.

applied (usually energy usage) and the servicing fee. To obtain a high rating, we would expect that even in a stressful environment, such as one in which energy usage declined dramatically, the charge per customer necessary to pay off the bonds would be reasonably low both in absolute terms and as a percentage of the customer's energy bill. The specific stresses that we place on the variables are issuer-specific and are determined on a case-by-case basis.

In addition, we analyze the implications of other structural features of the securitization that could affect the risk of investor loss. For example, we examine the risk implications of how the cash flows are allocated among the various classes of investors and the other participants in the transaction, and the extent to which any other sources of funds are likely to be sufficient to offset any remaining shortfalls to investors, whether the shortfalls are temporary ("liquidity") or permanent ("credit enhancement").

3. Analyzing the Risk Factors

Because of the unique characteristics of this highly regulated asset class, our credit analysis of UCRC securitizations focuses primarily on the legislation and the true-up mechanism. The degree of certainty that the fees generated through the legislation will be sufficient to pay off the securitizations in full is a complementary aspect of the analysis. .

Depending on the risks and mitigants in the relevant jurisdiction, transaction ratings will typically be positioned between the government rating and the country ceiling. Risks that could lead us to determine transaction ratings to be lower than the country ceiling include, for example, continued high levels of debt burden in a utility system. Such high levels of debt, if deemed unsustainable in the long term, may lead to political pressure to adjust the regulatory framework around the system deficit, with some potential negative impact on the related securitization transactions.

In the following sections, we describe the factors that typically lead to a high degree of certainty and thus high ratings on the bonds.

3.1 Protection against Future Impairment of the Right to Collect the Charges

Utility cost recovery charges are established by special legislation that authorizes the creation of a property right to collect future surcharges on customers' monthly electricity bills as the means to pay back the UCRC bonds. Consequently, we analyze the extent to which investors are protected against the enactment of future legislative changes that would weaken that right. For example, investor risk would be mitigated in a situation in which (1) the legislation contained a pledge by the jurisdiction not to impair the right to collect the special charges until the maturity of the bonds and (2) violation of that pledge would be a violation of law [3].

3.2 Irrevocability of the Financing Order

The legislation is typically accompanied by a financing order issued by the public service commission that authorizes the utilities to impose and collect the surcharges on the customer's monthly electric bill during the term of the bonds. Our analysis assesses whether the financing order is irrevocable, which would protect investors against future adverse changes that may reduce the charges backing the bonds.

3.3 Sufficiency of the Charges and the True-Up Mechanism

The charges are usually assessed as an amount linked to a customer's energy usage. Our analysis considers whether the financing order places any limits on charges – e.g., caps on the levels of charges or limits on the length of time that the charges can be imposed – that might cause the collections to be insufficient to provide for timely payment of the principal and interest on the UCRC bonds. In addition, we analyze whether the period over which the charges are allowed to be levied provides sufficient cushion to pay off the bonds by maturity in the event that collections come in more slowly than originally projected.

[3] Violation of the non-impairment pledge would be a violation of the Contract Clause and the Takings Clause under the Federal and State constitutions.

In addition, we analyze whether the bankruptcy of the utility could cause a disruption in the remittance of payments by the utility to bondholders. Such a disruption could occur if the remittances of the charges were "commingled" with the other funds of the utility and the bankruptcy court ordered a halt to payments until proper ownership of the funds could be sorted out. Our analysis includes an assessment of the ways in which the utility separates the cost recovery charges received from its other funds and the frequency with which it transfers the funds to the trust.

3.6 Bankruptcy of the Financing Vehicle

Another potential risk to investors in UCRC securitizations is a bankruptcy of the financing vehicle. That could expose investors to the risk that other creditors of the vehicle might make a claim on the cost recovery charges or that payments to investors might be delayed by the imposition of an automatic stay. Consequently, we analyze (1) the likelihood that a third-party creditor would be able to successfully petition the owner of the assets (i.e., the financing vehicle) into an involuntary bankruptcy proceeding or (2) the likelihood that the owner of the assets would voluntarily seek the protection of the bankruptcy courts.

To analyze the likelihood of an involuntary bankruptcy, we assess the characteristics that would mitigate that risk, such as if the financing vehicle had (1) no assets other than the right to the cost recovery charges, (2) no indebtedness other that the securitization debt, (3) limited activities that could give rise to contractual or other liabilities, and (4) agreements with the sponsor and other contracting parties not to petition for the dissolution, liquidation or bankruptcy of the securitization vehicle. Similarly, factors that would mitigate the risk of a voluntary bankruptcy would include (1) charter documents of the owner of the assets that require directors who are independent of the utility and (2) a unanimous vote of directors as a condition to filing a voluntary bankruptcy.

3.7 Economic Factors

Even if the financing order is irrevocable, the charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. That is more likely the higher the charges, i.e., the more the economic incentive for a challenge or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the cost recovery charge, both in absolute terms and as a percentage of the customer's energy bill. Typically the percentage of a residential customer's monthly bill devoted to the cost recovery charge is less than 10%.

We typically also look at stressful collection scenarios. For example, in one scenario, we assume (1) that energy usage falls short of the utility's projections[9] by a progressively increasing amount each year (typically 5% per year), (2) that forecasted collections in peak usage months do not materialize (for example, 100% of the collections in the peak month and 50% of the collections in the second highest-usage month), and (3) that the servicing fee is considerably higher than the current, "normal," servicing fee, representing the fee that would be required if the original servicer needed to be replaced in a stressful environment. In another scenario, we typically assume that energy usage is lower than projected by a set amount throughout the life of the securitization (typically 25%). For highly rated transactions, we would expect that the cost recovery charge would remain relatively low even in those highly stressful scenarios.

While the specific stresses that we place on the variables have been quite similar to date, this reflects the fact that all rated transactions to date have involved requests for the highest ratings and been supported by highly diverse, broad-based service areas. However, in general, stresses are issuer-specific and are determined on a case-by-case basis. One of the factors that we use to determine the appropriate stress level for a transaction is the variability of the base against which the charge is applied, for example, the population in the service area or the energy usage in the service area. Customer bases that are less broad-based and diversified tend to be more variable; as a result, we would apply more severe stresses in those situations.

[9] We typically assess the reasonableness of the utility's projections by analyzing (1) the historical energy usage in the utility's service region and the variances between past projections and actual outcomes, and (2) the likely growth in electricity usage in the service area of the utility, taking into account the projected economic growth in the region and the possible competitive impact of technological advances, such as those in the development of solar energy.

Depending on the jurisdiction, we also follow the rating of the utility as a proxy to assess any changes to the economic health of the service region and the potential for changes in the size and composition of the ratepayer base. Furthermore, we monitor the rating of the utility collecting the charges (as an indicator of its financial condition) to track the risk, typically quite small, that a bankruptcy could lead to disruption in billing and collections and in the remittance of payments to the bondholders.

In other instances, we may be more concerned with the behavior of the regulator of the utility system and less with individual utility companies. This could lead to a lower rating in the space between the local currency ceiling and the sovereign rating or the utility rating.

Thus changes on our expectations and other analytical components could have an impact on the rating of the securities and may result in a reassessment of the rating.

» contacts continued from page 1

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Report Number: SF404788

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Overview of Securitization

Presentation to the Ministry of Energy

March 7, 2017

Blakes

1. Securitization – Basic Parameters

ABS - “asset-backed securities”

a. Discrete cash flows capable of “true sale”
b. Cash flows service (match) the ABS payments
c. Underlying financial assets (independent; non-contingent)
d. Typically, “pools” of financial assets
e. “Structured Finance” (economic sharing with transferor; tranching; credit enhancements)
f. No immediate change in the “servicing” of the underlying assets

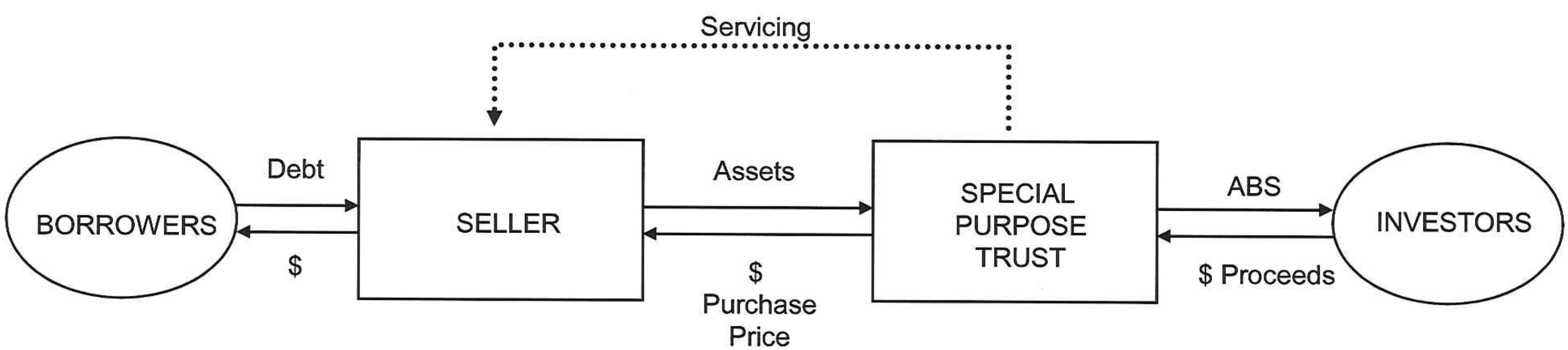
Blakes

1. Securitization – Basic Parameters *(cont'd.)*

Use of SPVs

a. Legal separation; isolation ("bankruptcy remoteness"; independent governance)
b. Reliance on third parties (agents; servicer)
c. "Off-balance sheet" status
d. Choice of entity type
e. Entity-level taxation
f. Securities law implications

Basic Model - Single Seller



1. Securitization – Basic Parameters *(cont'd.)*

<u>Ratings</u>

a. Statistical approach to credit assessment
b. Legal criteria; legal opinions
c. "Weak link" analysis
d. Gating issue for some institutional investors
e. "sf" demarkation

1. Securitization – Basic Parameters *(cont'd.)*

<u>Approaches to Offerings</u>

a. Private (OM private placements, CP conduits, direct bulk sales to institutions, etc.)

b. Canadian "public" offerings (prospectus; shelf rules; capital markets platforms)

c. Cross-border structures; foreign law compliance (Reg AB; DFA)

Blakes

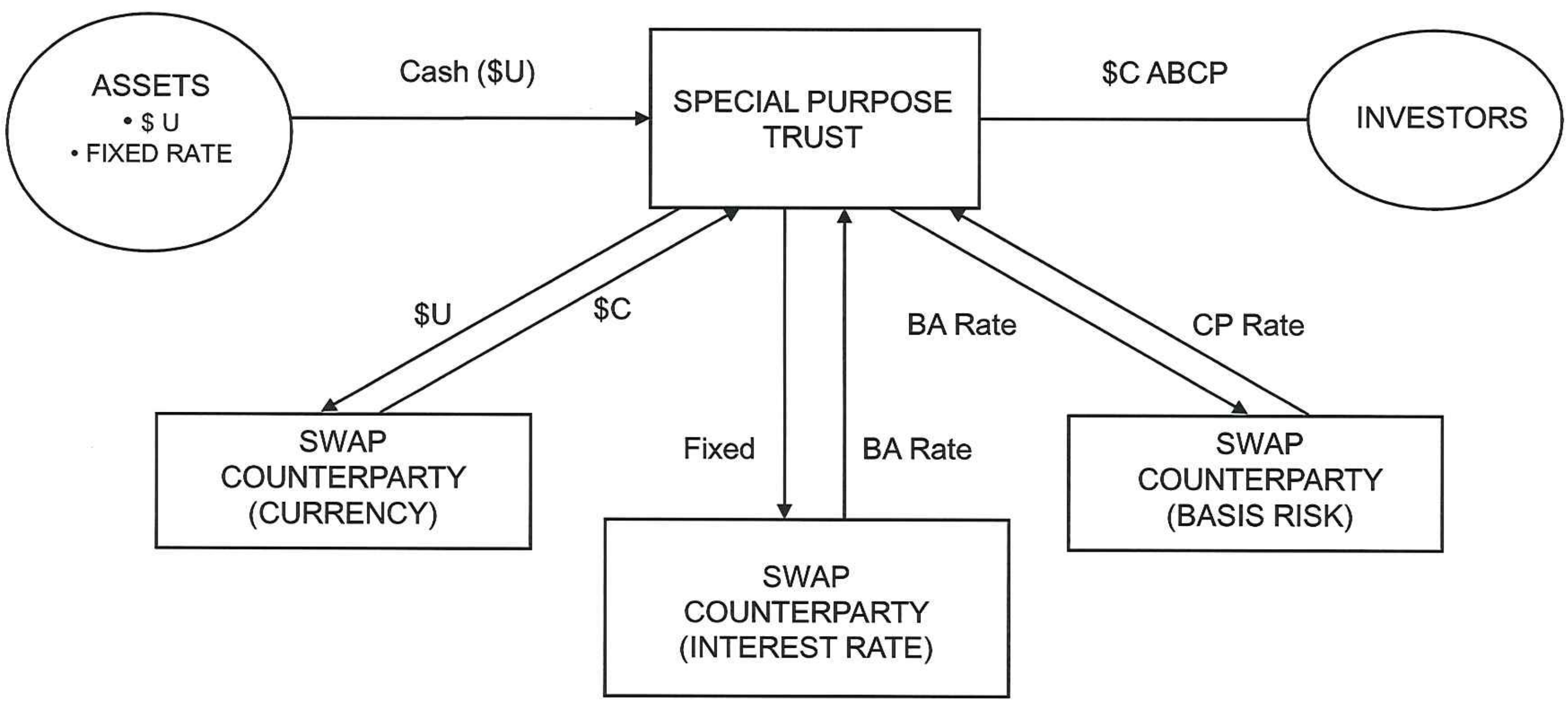
2. Underlying Asset

a. Statutory payment entitlements (defined class of payors; legislative authority)
b. Assignment (restrictions; prerequisites)
c. Allocation of “Global Adjustment” portion only; prioritization of receipts
d. Servicing (third party collections; transferability of systems)
e. Duration matching; sufficiency for repayment
f. Contingencies (disruptions; repudiation; legal challenge)
g. “Credit enhancements; fallback indemnity
h. Hedges (interest rate; currency; or basis risk)

3. Structural Features

a. SPV governance, covenants and administration
b. Tranching of cash flows
c. Program changes (“RAC”)
d. Hedging (interest rates; currency; basis risk)
e. Change of Circumstances (redemption rights)
f. Enforcement through intermediaries

Incidental Hedging Transactions



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4. Analogous (somewhat) Offering Formats

a. "Revenue bonds"
b. Infrastructure bonds
c. Streaming/tracking transactions
d. Tax lien bonds (U.S.)
e. NHA Mortgage Backed Securities / Canada Mortgage Bonds