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May 8, 2017.

Mr. Gadi Mayman
Chief Executive Officer
Ontario Financing Authority
1 Dundas Street West, Suite 1400
Toronto, Ontario, M7A 1Y7

Re: **IESO Credit Requirements for the 2017 Fair Hydro Program**

Dear Mr. Mayman,

As you are aware the Ontario government has announced its intension to implement the Fair Hydro program (FHP) to reduce electricity prices for consumers in the province. Legislation is expected to be introduced this month for the program. The Independent Electricity System Operator (IESO) is preparing to implement the FHP and has determined that to support the IESO's role in implementation it will need greater credit liquidity than currently exists.

The existing credit facility between the IESO and the Ontario Financing Authority's (OFA) is $975 million. The IESO proposes that an additional facility/commitment be provided in the amount of $1,500 million. This would enable the IESO to provide interim financing for the FHP's global adjustment smoothing for a period of several months if needed.

We suggest the OFA's current $975 million agreement and the new separate (or co-mingled) FHP agreement consider the following key provisions:

- FHP: 5 year term to align with the FHP's deferral of electricity prices period plus a few months of contingency (i.e. September 30, 2022);
- FHP: interest charge to be Province's cost of funds for borrowing with a similar term as determined by OFA plus 0.25 percent per annum;
- FHP: drawings to be based on minimum of 7 days to a maximum of 95 days, to minimize interest costs and permit efficient FHP asset transfers;
- $975 million: draws to permit for FHP purposes; and
- $975 million: a reduction in the 28 days minimum draw for the existing facility to a minimum of 7 days to a maximum of 95 days;

Should the IESO find that there is consistent usage of these facilities we will contact the OFA for further arrangements.

Upon your reply to this letter, the IESO will seek any necessary IESO Board of Directors' approval for the above credit facility(ies) and we will provide such evidence for the OFA's records.

We appreciate the OFA's continue support and look forward to working with you. Please contact me should you need anything further.

Sincerely,

DRAFT

Kimberly Marshall
Vice President Corporate Services, Chief Financial Officer and Treasurer
416-969-6232