ieso
Independent Electricity
System Operator

1600 - 120 Adelaide Street West
Toronto, ON M5H 1T1
t 416 506 2800
www.ieso.ca

Memorandum

To: THE BOARD OF DIRECTORS
of the Independent Electricity System Operator

From: Jeannette Briggs, Susan Nicholson, Michael Boll and Anthony Martinello

Date: June 14, 2017

Re: Update on Fair Hydro Implementation

Overview:

This memo provides an executive summary of the Fair Hydro program and its impact on the IESO.

The memo is structured to provide an overview of four key areas, namely;

- Legal and Fair Hydro Structure;
- Settlements and LDCs
- Accounting and IESO Reporting
- Treasury and Liquidity

Background:

As you are aware, the Ontario introduced legislation in May 2017 to implement the Fair Hydro program. The program intends to defer the upfront costs associated with procuring electricity contracts and match to costs to the expected life of those contracts.

We look forward to our discussion at the Board meeting.

Sincerely,

Jeannette Briggs, Susan Nicholson, Michael Boll and Anthony Martinello

Legal and Fair Hydro Structure:

Overview

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Settlements and LDCs

Overview

- LDCs submit on the 4th business day of each month the following related to OFHP in the IESO Portal:
  - RPP shortfall (regulatory asset)
  - First Nation Delivery Credit amounts (provincial funding)
  - Increased OESP classes and amounts (provincial funding using variance account balance initially)
  - Rural or Remote electricity Rate Protection amounts for R1 customers (provincial funding)
  - Distribution Rate Protection amounts (provincial funding)
- Treasury will be informed on 5th business day the aggregate of the RPP shortfall to inform OPG and Government of the expected balance for the regulatory asset.
- LDC's preliminary statements for last trade date of the month will include individual line items by charge type for all OFHP reductions and payments via manual line entries permitting Finance to invoice appropriately. Government will be invoiced directly for all OFHP costs to be covered by provincial funding.

Accounting and IESO Reporting

Overview

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Treasury and Liquidity

Overview

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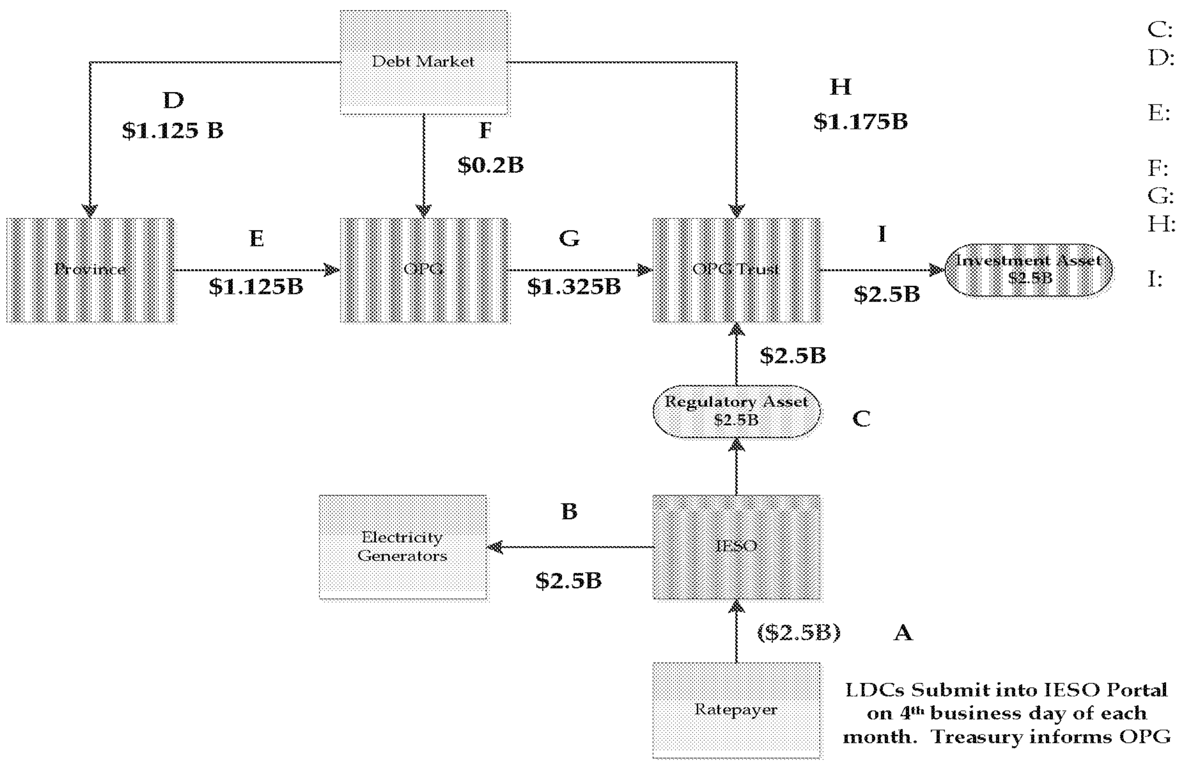
Appendix 1



A: IESO collects $2.5 billion less from ratepayers on invoice day (12th business day)
B: IESO pays $2.5 billion to generators on payment day (14th business day)
C: IESO records a regulatory asset of $2.5 billion
D: Province borrows $1.125 billion (45% of shortfall) from debt markets
E: Province invests $1.125 billion into OPG as equity
F: OPG borrows $0.2 billion from debt markets
G: OPG loans $1.325 billion to OPG Trust
H: OPG Trust borrows $1.175 billion from debt markets
I: OPG Trust purchases $2.5 billion regulatory asset creating the investment asset