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Memorandum

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

From: Anthony Martinello, Director

Date: June 13, 2017

Re: Fair Hydro Credit Facility

This memo outlines recommendations to establish a new credit facility for the Fair Hydro program, and to reduce the current OFA's [redacted] million facility.

Background:

Table 1 below summarizes IESO's current credit facilities and status:

TABLE 1

Maximum $ Commitment (millions)	*Drawn $ as of April 30, 2017 (millions)*	*Lender (*, **)*	*Funds utilized for*	*Expiry*	*Comments*
Not yet established	-	OFA or OEFC	Fair Hydro program	-	Not yet established
[redacted]	[redacted]	OFA	Market General liquidity	Dec 2019	1, 2 or 3 months only
[redacted]	[redacted]	TD Bank	Market General liquidity	Apr 2020	Daily overdraft of [redacted] and day-to-day funding
[redacted]	[redacted]	OEFC	Corporate General liquidity	June 2020	Month-to-month only
[redacted]	[redacted]	OEFC	Corporate SME/CAPEX Costs	June 2020	Fixed term and rate
[redacted]	[redacted]	TD Bank	Corporate SERP trust	Jul 2017	Renewed on annual basis as per trust agreement

*OFA = Ontario Financing Authority
**OEFC = Ontario Electricity Financial Corporation

2017 Fair Hydro:
The Ontario government has announced its intension to implement the proposed Fair Hydro Plan (FHP) to reduce electricity prices for eligible consumers in the province. Proposed legislation was introduced in May for the FHP. The IESO is preparing to implement its responsiblities within the FHP and has determined that in order to support the IESO's role in FHP implementation it will need greater credit liquidity than currently exists.

Commented [TD1]: We are not responsible for implementing the Fair Hydro Plan in its entirety.

An existing credit facility between the IESO and the Ontario Financing Authority (OFA) is currently available for [redacted] million which includes support for the current Regulated Price Plan (RPP) program. The IESO proposes that a separate and additional credit facility be provided by either the OFA or Ontario Electricity Financial Corporation (OEFC) to support the FHP credit needs. A separate facility for the FHP is preferable to ensure operational efficiency and interest cost tracking.

IESO's FHP Credit Requirements and Rationale
Below we have outlined the IESO's expected credit needs including the current OFA facility as follows:

Current credit facilities	[redacted]
Reduction due to FHP	
Increase due to FHP	
Totals Credit Facilities	

The above [redacted] million reduction in the current OFA facility is to eliminate duplicate credit needs and reflect the replacement of the current RPP by the new FHP. ~~In addition, T~~The IESO has had recent discussions with OFA staff to explain the rationale to support the overall [redacted] million FHP commitment.

Recommendations:
The Audit Committee to approve and recommend to the IESO Board of Directors:

a) to establish and renew the debt / credit facilities as presented in table below; and
b) the authority to draw on the facilities to be made by the Chief Financial Officer or their delegate.

		Existing Agreement – expires December 2019	**Recommended Revisions**
1.	Facility $ Commitment	$975 million credit facility	Minimum: $400 million Target: $475 million Maximum: $500 million
	Lender	OFA	OFA
	Term	Expiry December 2019	Minimum: December 2019, Maximum: June 2020,
	Interest Rate	Variable: Province's cost of funds for a 30 day term as determined by OEFC plus 0.25 percent per annum	Same, no change
2.	Facility $ Commitment	n/ a	Minimum: $1,800 million Target: $2,000 million Maximum: $2,500 million
	Lender	n/ a	OEFC or OFA
	Term	n/ a	Minimum: December 2019, Maximum: December 2022,
	Interest Rate	n/ a	Variable: Province's cost of funds for a 30 day term as determined by OEFC plus 0.25 percent per annum
	Draw	n/ a	Minimum: 1 day draw, Maximum: 95 day draw,

Sincerely,

Draft

Anthony Martinello
Director, Treasury and Pension Operations