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Memorandum

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

From: Anthony Martinello, Director, Treasury and Pension Operations

Date: June 13, 2017

Re: Fair Hydro Plan Credit Facility

This memo outlines recommendations to: (i) establish a new credit facility for implementing the Fair Hydro Plan; (ii) reduce the $975 million facility IESO currently has with OFA; and (iii) amend the existing revolving credit facility with TD Bank.

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*
$975	$14	OFA	Market General liquidity	Dec 2019	1, 2 or 3 months
[redacted]					
$160	$0	OEFC	Corporate General liquidity	June 2020	Month-to-month
$120	$120	OEFC	Corporate SME/CAPEX Costs	June 2020	Fixed term and rate
[redacted]					

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

2017 Fair Hydro:

The Ontario government has passed into law the Fair Hydro Plan (FHP) to reduce electricity prices for eligible consumers in the Province. The *Ontario Fair Hydro Plan Act, 2017*, received Royal Assent on June 1, 2017. The IESO is preparing to implement the FHP and has determined that in order to support the IESO's role in FHP implementation it will need greater credit liquidity than is currently available to it.

An existing credit facility between the IESO and the Ontario Financing Authority (OFA) is currently available for $975 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 IESO's FHP credit needs. A separate facility for the FHP is preferable to ensure operational efficiency and interest tracking.

IESO's FHP Credit Requirements and Rationale

Below we have outlined the changes to IESO's expected credit needs which result from the implementation of FHP (including the impact on the current OFA facility):

	OFA : IESO Facility	New FHP facility
Current credit facilities	$975 million	$ -
Reduction due to FHP	($500 million – est.)	$ -
Increase due to FHP	$ -	$2,000 million (est.)
Totals Credit Facilities	$475 million (est.)	$2,000 million (est.)

The above estimated $500 million reduction in the current OFA facility is to eliminate duplicate credit needs and reflect the effective replacement of the current RPP framework by the new FHP. In addition, the IESO has had recent discussions with OFA staff to explain the rationale to support the overall approximately $2,000 million FHP commitment.

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

a) to establish and renew the credit facilities as presented in table below;
b) the authority to draw on the facilities; and
c) to delegate authority to the Chief Financial Officer or her delegate to finalize, execute and draw on the credit facilities as presented in the table below;

TABLE 2 – Credit Facilities

		Existing Agreement	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: December 2022
	Interest Rate	Variable: Province's cost of funds for a 30 day term as determined by OEFC plus 0.25 percent per annum	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 the draw term as determined by OFA/ OEFC plus 0.25 percent per annum
	Draw	n/ a	Minimum: 1 day draw Maximum: up to 95 day draw
3.	Facility $ Commitment	[redacted]	[redacted]
	Lender		
	Term		
	Other Debt Permitted		

Sincerely,

Anthony Martinello
Director, Treasury and Pension Operations