Message

Sent: 2017-10-05 11:44:50 AM
To: GO Matthew -TREASURY [matthew.go@opg.com]; Jeannette Briggs [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=148095610f7242f48a5a9da24b1a8a87-Jeannette B]
Subject: RE: EXTERNAL – Draft asset purchase cycle & CEAs

Matt,
Including Jeannette for fyi.
See red font.

From: GO Matthew -TREASURY [mailto:matthew.go@opg.com]
Sent: October 05, 2017 9:52 AM
To: Anthony Martinello
Subject: RE: EXTERNAL – Draft asset purchase cycle & CEAs

Anthony,

As a follow up to my voicemail, here are the questions I have regarding CEA collection:

1. LDCs will bill CEA separately or will it be part of regular invoice to customers? LDCs will bill the CEA on their regular customer bill, albeit the CEA will have its own separate line on the bill.
    a. If separate, when would this happen in a typical month? As noted in my email, LDCs bill their customer at various times – there is no consistent billing period with LDCs and/or within each LDC. Rather, a customer will receive
    b. When would customers make payment to the LDCs?
2. LDC payment to IESO for CEA – I understand this is separate and proposed to be 16th business day. How is the due date communicated to the LDCs? Is it simply the reminder notice on the 14th? Or is there other methods over and above this?
3. Overall, how much would the anticipated LDC billing and collection process with customers differ from the current process (non-CEA) under Market Rules?

Thanks,
Matt

From: Anthony Martinello [mailto:Anthony.Martinello@ieso.ca]
Sent: Monday, September 25, 2017 10:14 PM
To: GO Matthew -TREASURY <matthew.go@opg.com>
Cc: Michael Boll <Michael.Boll@ieso.ca>; Jeannette Briggs <jeannette.briggs@ieso.ca>; Kim Marshall <Kim.Marshall@ieso.ca>
Subject: EXTERNAL – Draft asset purchase cycle & CEAs

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Matt,
Thanks for your email below.

There are two time periods that need to be discussed as they each will have different payment processes. First, the period when clean energy adjustments (CEA) are not collected from consumers (the "moratorium period"). Second, the period when CEAs are collected from consumers (the "CEA period").

During the CEA period, what OPG proposes is not correct.

During the CEA period, the Financing Entity's CEA recovery is governed by the Ontario Fair Hydro Plan Act and associated regulations. The financial services manager will determine the CEA for a reference period (e.g. each 6 months) and will communicate such amount to the OEB. The OEB will then determine the rates at which specified consumers are to be invoiced by LDCs during the reference period to seek to recover the CEA based on forecasted consumption. Since the CEA rate is based on forecasts, actual recovery may differ from the total CEA forecasted to be recovered during a recovery period. The true-up mechanism operates to address any over or under recovery during a reference period.

During the CEA period, the IESO will facilitate the flow of CEA money by transferring dollars **as received** from LDCs to the Financing Entity. The IESO is not required to fund any amounts not actually received from LDCs (i.e. electricity vendors).

Based on OPG's proposed payment process, the IESO is concerned that OPG misunderstands the regulatory framework during the CEA period. We would like to discuss the IESO's and OPG's understanding of the CEA recovery as described in the email below. As well, we need a better understanding of the letter of credit details & requirements for credit enhancement of LDCs and would like to discuss the timing of CEA collection.

To facilitate the first two discussion points, see below our understanding of the two positions (IESO and OPG) on CEA recovery:

1. <u>IESO position:</u> IESO is a pass-thru servicer of the CEA remitted by LDCs – therefore there are no invoices issued by IESO to LDCs, and there is no invoice issued by the financing entity to the IESO (or vice-versa):
    a. LDCs will report to the IESO consumption by specified consumers, the amount invoiced and the amounts collected;
    b. IESO will receive amounts actually paid to it by LDCs, but will not invoice LDCs and will not be obligated to enforce non-payment by consumers nor LDCs;
    c. The financing entity will utilize the a) true-up mechanism and b) reserve accounts mechanisms to ensure there is enough funds to pay investors each month;
    d. The financing entity/financial services manager will track actual CEA against amounts it requires;
    e. How the financing entity deals with short-term credit needs for those times where the CEA is not sufficient to pay investors each month is for the financing entity to determine

2. <u>OPG position:</u> OPG has IESO issuing invoices to LDCs and financing entity for CEA – *note we are having a difficult time reconciling the steps below with the legislation as it is currently written but have listed the steps as we understand OPG position:*;
    a. The financing entity would provide details in a time and manner such that the IESO could create an invoice payable (or receive from the financing entity an invoice) for 100% of the financing entity's monthly cash-flow needed to pay investors etc.

b. The LDCs may be unable to pay the exact amount needed by the financing entity due to a) rate established by the OEB for CEA recovery will be based on forecasts which is unlikely to match actual CEA b) some differences due to LDCs consumers' billing vs. collection cycles, and c) possibility that homeowners default, and d) in some unlikely cases LDCs' payment defaults whether due to temporary mis-management or CCAA/bankruptcy;
c. OPG suggests the IESO will fund 100% each month to financing entity, and any CEA payment shortfall from LDCs will require the IESO to borrow;
d. IESO does not agree this approach is compliant with the regulatory framework and there is no mechanism for the IESO to recover the CEA shortfall (i.e. IESO borrowing). Rather the legislation contemplates the true-up and reserve accounts controlled by the financing entity to address any over or under CEA collection.
e. The concept of the IESO paying 100% of a financing entity invoice conflicts with the request (discussed below) for the IESO to post a letter of credit to support potential defaults from non-credit rated LDCs.

We have some questions regarding the IESO's letter of credit to the financing entity for CEA shortfalls:

a. The letter of credit was suggested to provide credit enhancement to the investors - as per my email last week (Sept-21) what are the requirements for the letter of credit (e.g. quantum, trigger for when a draw takes place etc.);
b. Please note that the IESO is still seeking confirmation there are no accounting issues with providing this letter of credit, and is working with government to address recovery of IESO's costs / draws for the letter of credit.

In terms of the timeline for CEA recovery, the IESO suggests for post 2021 CEAs:

- 8th business day of each month, the IESO sends the MTSA Monthly Report to the financing entity regarding the recent completed calendar month's activities (money-in and money-out of the IESO's CEA trust account);
- 10th business day, LDCs will <u>report only</u> to the IESO the following:
  - Total amount of CEA billed to customers during the recent completed calendar month;
  - Total amount of CEA collected from customers during the recent completed calendar month;
  - Other information as prescribed by 17(2) leg and regs
- 14th business day, IESO issues reminder notices (not an invoice, no invoice issued) to all LDCs to remit their CEA amount to the IESO on 16th business day;
- 16th business day, LDCs remit their CEAs amount to the IESO;
- 18th business day, IESO remits to the financing entity all CEAs monies received by the 16th business day – this is a once per month remit;

Regards.

From: GO Matthew -TREASURY [mailto:matthew.go@opg.com]
Sent: September 21, 2017 12:18 PM
To: Anthony Martinello
Cc: Jeannette Briggs
Subject: RE: EXTERNAL – Draft asset purchase cycle

Hi Anthony,

Yes, give me a call when you are free. I am free throughout the day, other than 2-3pm.

The attachment contemplates at a high level, how the CEA would be charged and collected, though it is not explicit. It is part of the invoice cycle where the Trust will submit an invoice to IESO (Day 4) and IESO pays Trust (Day 14). The invoice will be the accrued financing costs.

However, I can see there would be quite a few details and mechanics on IESO's end that need to be worked out in regards to CEA collection. I'll use an example of a typical month post-2021 to flush out the issues I see:

Day 4

- LDCs submit online CEA charged to customers by them
- LDCs submit online CEA remittance amount to IESO (therefore CEA shortfall is known if any)
- Trust submits invoice for accrued financing costs (theoretically should match CEA collected assuming no shortfall)

Day 10

- IESO produces invoice for LDCs and Trust

Day 12

- LDCs remit payment to IESO, including CEA
- CEA shortfall funded via IESO bank facility? Will be part of variance account? (I assume yes as we are out of the moratorium period – regular true-up process kicks in)

Day 14

- IESO pays Trust invoice
- **Issue 1:** MTSA draft (3.2(a)(iv)) says IESO has [2] business days to move CEA receipt to seg bank account. However, at this point (Day 14), IESO is remitting the funds the Trust anyways... I'll have to follow up with the working group on this point.
- **Issue 2:** MTSA draft (3.2(a)(vi)) says IESO will pay Trust on [remittance date] of <u>next</u> billing period. However, the process contemplated assumes IESO is paying the invoice in the current month. So this is in conflict.

Thanks,
Matt
416-592-3978

From: Anthony Martinello [mailto:Anthony.Martinello@ieso.ca]
Sent: Thursday, September 21, 2017 4:45 AM
To: GO Matthew -TREASURY <matthew.go@opg.com>
Cc: Jeannette Briggs <jeannette.briggs@ieso.ca>
Subject: EXTERNAL – Draft asset purchase cycle

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Matt,

We need to connect and align on what happens during 2021/2022 going forward.

The MTSA details the cashflow for the clean energy adjustment – CEA and how the IESO remits to the financing entity.

Therefore, while I have timelines that work from an IESO perspective...we should talk soon to ensure what is baked into the MTSA is aligned with OPG's processes.

So far all we aligned was the 2017-2021 cycle which is baked into the MTSA – see attached.

Regards.

From: Anthony Martinello
Sent: June 20, 2017 4:22 PM
To: 'GO Matthew -TREASURY'
Subject: RE: EXTERNAL – FW: Draft asset purchase cycle

Looks good. Regards.

From: GO Matthew -TREASURY [mailto:matthew.go@opg.com]
Sent: June 20, 2017 11:44 AM
To: Anthony Martinello
Subject: RE: EXTERNAL – FW: Draft asset purchase cycle

Anthony,

I've incorporated your comments below. The main takeaway I'm getting from these changes are:

1. IESO needs time to scrub the LDC shortfall data, which triggers the need for borrowing
2. The asset purchase is now not aligned with your normal processes, which requires some spacing from your normal processes (as to not be jammed)

The flowchart is a little more crammed than usual as it is a combination of the invoice and asset purchase cycle. Let me know if this is good to go.

Matt

From: Anthony Martinello [mailto:Anthony.Martinello@ieso.ca]
Sent: Tuesday, June 20, 2017 7:31 AM
To: GO Matthew -TREASURY
Subject: RE: EXTERNAL – FW: Draft asset purchase cycle

My comments on revised cycle for the IESO swimlane:

- LDCs submit FH shortfall by bd 4 – the IESO takes these amounts as is, and this becomes the asset (will show up on bd 10 invoices)
- By bd 4, Trust will submit costs, interest (with or without HST to be determined) in IESO portal – the IESO will take these amounts as is
- IESO will inform Trust on bd 8 (not bd 5) of asset balance to purchase. The settlements staff will need a buffer to double check the results before releasing to Trust. Note, the asset is the sum of LDCs' FH + Trust costs, interest
- IESO issues Trust invoice for costs on bd 10
- IESO borrows bd 12-14
- IESO pays Trust costs on bd 14
- IESO issues Trust invoice for the asset purchase bd 16
- Trust pays IESO bd 18 (must be no later than second last bus day of the month – i.e. watch for Feb month)
- IESO repays borrowing before month end

Regards

From: GO Matthew -TREASURY [mailto:matthew.go@opg.com]
Sent: June 08, 2017 10:01 AM
To: Anthony Martinello
Subject: RE: EXTERNAL – FW: Draft asset purchase cycle

See attached. Let me know if you are OK with this or if there's any issues to point out.

From: Anthony Martinello [mailto:Anthony.Martinello@ieso.ca]
Sent: Wednesday, June 07, 2017 7:40 PM
To: GO Matthew -TREASURY
Subject: RE: EXTERNAL – FW: Draft asset purchase cycle

1. Next Tues or Wed.
2. Thx.

From: GO Matthew -TREASURY [mailto:matthew.go@opg.com]
Sent: June 07, 2017 5:42 PM
To: Anthony Martinello
Subject: RE: EXTERNAL – FW: Draft asset purchase cycle

Anthony,

1. Do you have an estimate as to when IESO's comments on the Sale and Servicing agreement will be available?

2. An update on the workflow. I'm almost done – should be able to pass something to you tomorrow. Key point is Trust should be able to get you funding prior to you paying market participants, so you don't need to borrow. But that is all predicated on the regulations stating the regulated asset is created on Day 4/when LDCs enter amount in portal.

Thanks,
Matt

From: Anthony Martinello [mailto:Anthony.Martinello@ieso.ca]
Sent: Tuesday, May 30, 2017 9:58 AM
To: GO Matthew -TREASURY
Cc: Jeannette Briggs; Susan Nicholson
Subject: EXTERNAL – FW: Draft asset purchase cycle

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My comments below on the workflow V2:

Month T

- Bus day 3-4: add that OPG Trust will self-enter in the IESO portal a) OPG admin fees, b) any interest costs, c) vendor invoices for the IESO to reimburse OPG Trust during the month
- Bus day 5 : no changes/comments
- Bus day 6-9 : OPG Trust will not need to enter an amount in the IESO portal per se (although a form may still be created for such contingency - maybe) since the full amount including up to the pennies will be 100% sold each

month to OPG Trust automatically. We should discuss how/when that OPG Trust will give some sort of notice a few months in advance if no further purchases will be made and therefore the IESO will not create an invoice that month for OPG Trust.

- Bus day 10: add may need to issue second invoice to OPG Trust each month for reimbursement of costs (this is a credit invoice)
- Bus day 14: add OPG Trust receives monies for reimbursement costs this day. Not sure about "IESO certifies" as the IESO's invoice should suffice as formal notice that reg asset is created. Also the FH ACT says the regulations can stipulate when the reg asset is created and so this can be spelled out in the regulations.
- Bus day 15-19: try to avoid the last few bus days of each month to avoid bank/errors/delays and hiccups (e.g. Feb is short month so maybe 19th is the last day and not preferred). My lender will impose a min of 7 days borrowing (not bus days) so the OPG Trust payment and my repayment of debt needs to align to min interest costs for overall FH program.

Regards.

From: GO Matthew -TREASURY [mailto:matthew.go@opg.com]
Sent: May 29, 2017 11:13 AM
To: Anthony Martinello
Subject: RE: Draft asset purchase cycle

Correction. Here is a version with the note about the earlier borrowing.

From: GO Matthew -TREASURY
Sent: Thursday, May 25, 2017 5:42 PM
To: Anthony Martinello
Subject: Draft asset purchase cycle

Anthony,

I've updated the asset purchase cycle draft to reflect the new process where the Trust buys the reg asset in the month. It includes information from our discussion today. Assuming the "asset creation" is triggered by the borrowing on the 14th business day, you can see repayment would occur between the 15-19th business day. As you mentioned, I've put a note that the borrowing could be earlier to satisfy your minimum draw term requirement. However, you mentioned you may need to speak to your bank about that – which could make sense so you don't have to borrow early or as early. Also awaiting input from Michael Boll on asset creation.

Thanks,
Matt

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