Message

From: Anthony Martinello [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=3FB7D76317B34780B15D96309B995C31-ANTHONY MAR]
Sent: 2017-10-17 10:35:33 AM
To: Macfarlane, Gavin [Gavin.Macfarlane@moodys.com]
CC: Hamlet Alexanian [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=d0fcff8aeea84848ba5a12380ec04460-Hamlet Alex]
Subject: RE: IESO : LDCs - OEB ratios

As discussed, further comments for discussion only in regards to the proposed/draft fair hydro program:

1.
IESO is expected to post a letter of credit (or maybe a letter of guarantee solely written by IESO – this is cheaper cost) in favour of the Trust for any non-credit rated LDCs defaults during the period 2021 to 2047 – see email below.

2.
Intercept Letter – as previously communicated.

3.
The Trust is looking for the IESO to give a 1st priority/security over all IESO assets including accounts receivables in favour of the Trust during the first 4 years (2017 to 2021/2022). This item is being discussed heavily amongst all parties for its merits. If this does occur the IESO will have to re-structure/amend its current TD and OFA/OEFC lines since all are unsecured and pari-passu. Not sure why this is of material importance to the Trust since the government is the sole fair hydro lender to the IESO and is not likely to let this program fail due to debt support to the IESO. Any additional cost (e.g. increased TD bank interest rate due to re-structure line) due would be paid by the Ontario homeowners – something that may be avoided/lessen.

4.
Bad debts vs. actual/forecast

- The Trust has been very concerned with bad debts impact – those from homeowners / LDCs;
- My read of the legs/regs indicates that any bad debts from homeowners/LDCs will be socialized thru the Trust's true-up mechanism – in time the Trust will get its money but just not when it expects;
- The bigger $ matter is likely to be actual vs. forecast of rates and consumption patterns. Even if all homeowners and LDCs collect and pay 100% of the CEA rate back to the Trust, the Trust will still have noise/slippage to contend because actual consumption patterns may vary drastically than what the Trust was expecting – impacting Trust's cashflows.

5.
Trust not obligated to buy from IESO – only relevant during the first 4 years;

- The Trust is not obligated to buy from the IESO;
- If the Trust stops buying at any point, the IESO will continue to draw on the OFA line to a) pay Trust costs, and b) continue to fund the difference between market rates vs. what homeowners pay – the fair hydro difference. The legislation/regulations permits the IESO to continue record this $ difference as a "regulatory asset" which is deemed to be recoverable by the IESO from homeowners after 2021/2022.
- E.g. If the Trust buys $7 billion only and IESO is left holding $1.5 billion by 2022, then the OEB will set two rates in 2022 a) a CEA rate for the Trust to recover from homeowners, and b) a yet to be determined ABCDE rate for the IESO to recover from homeowners. The homeowner will effectively see two new lines on their bill.
- Also, the IESO will continue to manage the RPP rate (a 3rd rate) in addition to the above two rates.

Regards

From: Anthony Martinello
Sent: October 13, 2017 12:16 PM
To: Macfarlane, Gavin
Cc: Hamlet Alexanian
Subject: IESO : LDCs - OEB ratios

Gavin,

As I understand, the proposed OPG Trust (spec purpose vehicle for fair hydro program) is looking to the IESO to provide/post a financial instrument (e.g. Letter of credit) in favor of the OPG Trust for any LDCs' payment defaults (e.g. CCAA/bankruptcy). I am led to understand that a) the proposed IESO's financial instrument is primarily to mitigate the risk for those non-credit rated LDCs, and b) OPG Trust proposes to treat all non-rated LDCs as similar to junk status.

I view the non-rated LDCs could be viewed to have more/better creditworthiness characteristics than simply junk status and so I am asking you to send along my concern/comments to your structured finance team who are looking at rating the OPG Trust deal.

See the OEB's public link below which shows many non-credit-rated LDCs with good current ratios, total debt/equity ratios, ROE and efficiencies assessment measures when compared to the credit-rated LDCs.

e.g. Toronto Hydro's current ratio = 0.61, total debt/equity = 1.45
e.g. Burlington Hydro's current ratio = 2.50, total debt/equity = 0.79

https://www.oeb.ca/sites/default/files/2016-consolidated-scorecard.pdf

Regards.