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Ontario

November , 2017

Mr. Steen Hume
Assistant Deputy Minister, Ministry of Energy
7th Flr, 77 Grenville St
Toronto, ON M7A 2C1

Ms. Kimberly Marshall
Vice-President, Corporate Services and Chief Financial Officer, IESO
120 Adelaide St W #1600
Toronto, ON M5H 1T1

Dear Mr. Steen Hume and Ms. Kimberly Marshall:

I am writing in relation to the Independent Electricity System Operator's ("IESO") request to the Ontario Financing Authority ("OFA") for a new revolving credit facility in an amount of up to CAD $2 billion (the "New Credit Facility") to support the IESO's role in the implementation of and participation under the *Ontario Fair Hydro Plan Act, 2017*. Under the OFA Lending Policy, the OFA requires an intercept provision in respect of loans made by the OFA to public bodies on an unsecured basis. In general, an intercept provision allows the Minister of Finance to deduct from money appropriated by the Legislature for payment to the public body amounts equal to any amounts the public body fails to pay the OFA under a loan agreement.

The IESO and the Ministry of Energy ("ENERGY") confirm and the OFA acknowledges that at this time there are no amounts appropriated by the Legislature for payment to the IESO by ENERGY and the intent of such intercept provision is that it would apply if and when amounts were to be appropriated for payment by ENERGY to the IESO in the future.

Prior to entering into a loan agreement with the IESO for the New Credit Facility (the "OFHP Credit Facility Agreement") on an unsecured basis, the OFA requires ENERGY and the IESO to agree to the terms and conditions set out below in relation to the above OFA Lending Policy intercept provision requirement.

These terms and conditions shall also apply to the IESO's existing $975 million credit facility, established in a credit agreement entered into between the OFA and the Ontario Power Authority dated January 1, 2005, as amended (the "Original Credit Facility Agreement").

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- The OFA, the IESO, and ENERGY agree as follows in respect of any advances made by the OFA to the IESO pursuant to the OFHP Credit Facility Agreement or the Original Credit Facility Agreement (each a "Loan Agreement"; together, the "Loan Agreements"):

  - Pursuant to section 23 of the *Capital Investment Plan Act, 1993*, the IESO and ENERGY agree that, in the event that the Legislature appropriates any funds for payment by ENERGY to the IESO for any purpose ("Appropriated Funds"), the Minister of Finance would be entitled to deduct from such Appropriated Funds amounts equal to any amounts that the IESO fails to pay to the OFA on account of indebtedness under a Loan Agreement (the "intercept provision"). Terms relating to the intercept provision shall also be separately included in the Loan Agreements.

  - If the intercept provision is exercised, the IESO agrees that any notice from the OFA to the Minister of Finance in relation to its failure to make a payment that is due under a Loan Agreement may be relied upon by the Minister of Finance without further inquiry or verification by the Minister of Finance.

  - Prior to recommending to the Minister of Finance that the intercept provision be exercised, the OFA will raise the issue with ENERGY and seek ENERGY's support in getting the IESO to pay the amounts owing to OFA within a reasonable cure period.

  - Upon receipt of notice from the OFA that the IESO has failed to make one or more payments owing to it in accordance with the provisions of a Loan Agreement, ENERGY will provide the OFA with all information requested by the OFA respecting amounts appropriated by the Legislature for payments to the IESO by ENERGY, including the intended purpose and expected timing of such payments to be made by ENERGY. Upon request, ENERGY will provide similar information to the Minister of Finance.

  - ENERGY acknowledges and agrees that, upon receipt of a direction from the Minister of Finance that an amount is to be deducted from money appropriated by the Legislature for payment by ENERGY to the IESO, ENERGY will take all necessary action required by it in order to effect such deduction and payment to the OFA in accordance with the Minister of Finance's direction.

  - For further certainty, the OFA and ENERGY acknowledge and agree that the intercept provision as provided for herein, and this letter agreement generally, shall not apply with respect to any funds appropriated by the Legislature for payment to the IESO through ministries other than ENERGY or through Ontario Climate Change Solutions Deployment Corporation.

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This letter agreement may be executed in counterparts. Therefore, if you are in agreement with the above terms and conditions in relation to the Loan Agreements, kindly sign this letter agreement below in triplicate and send back two copies to my attention.

Sincerely,

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Ronald Kwan

Assistant Deputy Minister, Corporate and Electricity Finance Division, OFA

c. Gadi Mayman, Chief Executive Officer, OFA

The undersigned hereby agree to the terms and conditions as set out in this letter agreement and have executed this letter agreement as of the date first noted above.

Ministry of Energy

by:____________________________

name: Steen Hume

title: Assistant Deputy Minister, Ministry of Energy

Independent Electricity System Operator

by:____________________________

name: Kimberly Marshall

title: Vice-President, Corporate Services and Chief Financial Officer, IESO