Fair Hydro Plan Financing Program

Servicing Review

November 14, 2017

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Version – Anthony's

V1 – remove this slide on final deck

LDCs – General Risks

- IESO conducts daily monitoring of all market participants' electricity market financial exposures including LDCs
  - –Collateral calls may be issued based on actual exposures and/ or collaterals' expiries;
  - –Margin calls may be issued based on actual exposures;
- IESO does not rank LDCs based on their risk profile. The OEB provides annual reports/ scorecards to compare LDCs' performance, various metrics, and bad debt expenses;

  https:/ / www.oeb.ca/ utility-performance-and-monitoring/ what-are-electricity-utility-scorecards/ electricity-utility;

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

  https:/ / www.oeb.ca/ oeb/ _Documents/ Press%20Releases/ OEB_RRR_2.1.8_Arrears_PaymentAgreements_WriteOffs.pdf;

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LDCs – General Risk

Cont'd: IESO does not rank LDCs based on their risk profile. The OEB provides annual reports/ scorecards to compare LDCs' performance, various metrics, and bad debt expenses;

- All market participants must adhere to IESO prudential (collateral) requirements – as detailed in the IESO Market Rule.
- The Market Rules recognizes that LDCs have a lower credit risk profile than non-LDCs, and therefore the collateral requirements are materially lower that non-LDCs.
- Some LDCs (typically larger size) have external credit ratings while most do not have external credit ratings. Those LDCs that do not have credit ratings are not necessary of less creditworthiness status – many do not need or rely on credit ratings for their business structure to operate.

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LDCs – General Risk

Describe methods used to prevent and detect LDC errors, fraud, mistakes, etc.

IESO is not obligated or tasked to conduct / performance actions on LDCs to prevent and detect errors, fraud, mistakes. However, LDCs are regulated by the OEB and are required to adhere various key OEB codes:

– Standard Supply Service Code:
https://www.oeb.ca/oeb/_Documents/Regulatory/Standard_Supply_Service_Code.pdf

– Retail Settlement Code

– https://www.oeb.ca/sites/default/files/Retail_Settlement_Code_RSC.pdf

– Distribution System Code

– https://www.oeb.ca/oeb/_Documents/Regulatory/Distribution_System_Code.pdf

– Electronic Business Transactions Standards for Retail Settlement

– https://www.oeb.ca/oeb/_Documents/Regulatory/Ontario_EBT_Standa

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LDCs – General Risk

Cont'd: Describe methods used to prevent and detect LDC errors, fraud, mistakes, etc.

- All market participants including LDCs are required to adhere to the IESO's Market Rules which dictates how errors, mistakes and disputes are to be adjudicated.
- IESO relies on market rules, statutes and regulations that generally allow LDCs to supply information to the IESO on an as is basis;
- The IESO's MACD group may enforce fines and penalties on market participants including LDCs for market rules violations and market gaming activities – including a general conduct rule adherence;

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LDCs' Defaults

In general, the IESO experiences the following three types (or severities) of payment defaults:

a) defaults that are administrative in nature and are cured quickly within a few days;

b) defaults that involve significant delays in payment and requires IESO action(s)/ effort(s) to resolve but are ultimately cured without drawing upon the MP's collateral;

c) defaults that involve non-payment from the MP. Therefore, a draw on the MP's collateral by the IESO is needed, which may include issuance of a default levy if all collateral is exhausted;

Since IESO's market opening (2002) the IESO has not incurred a loss due to LDCs default. IESO has incurred LDCs' defaults mostly (a) above, and all have been cured by full payment without drawing on any of their posted collateral.

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LDCs' Defaults

Please describe collection strategies for early, middle and late-stage collections (if applicable)

Describe the recovery and write-off process.

- IESO Market Rules dictates collection / enforcement actions and rights of the IESO;
  - –Notices, remedies;
  - –Enforcements actions / suspension actions;
  - –Legal options;

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IESO – cash management procedures and controls

Please see external E&Y settlements audit.

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