IESO Privileged and Confidential Draft

Dear Deputy Minister Imbrogno,

As the Bill to enact the proposed Ontario's Fair Hydro Plan Act, 2017 (the "Fair Hydro Plan") nears completion, the IESO has a better understanding of the role it will play in implementing the government's proposed Fair Hydro Plan and of the risks posed to the IESO. The IESO's Board of Directors greatly appreciated and took comfort in ADM Steen Hume's presentation on April 12, 2017, and assurances regarding the support and protections that the Province would provide to the IESO. This letter is to follow up on Mr. Hume's presentation and to request the Province's assistance in mitigating the risks to the IESO created by the Fair Hydro Plan.

The greatest corporate risk is in the years when rates for specified consumers are to be reduced resulting in an IESO funding shortfall. The draft legislation does not require OPG or its financing entity to fund the IESO funding shortfall although we understand the intent is that it will. The IESO requests a formal commitment from the Province that the Province will fund the shortfall if OPG (or its financing entity) does not.

Separately, we have begun discussions with the Ontario Financing Authority (OFA) to increase the IESO's line of credit to reflect the increased magnitude of variances that will be incurred by the IESO under the Fair Hydro Plan and to provide a buffer to fund short periods where OPG does not fund a shortfall. In addition, we will be requesting certain enhancements to our OFA and OEFC lines of credit to obtain the assurance that in a situation where OPG does not fund the IESO funding shortfall, the IESO will continue to be able to draw on these credit facilities for liquidity (and conversely will not prevent the IESO from doing so). This is important not only for IESO solvency but also to maintain the IESO's credit rating.

Regardless of changes to the credit facilities, a key issue of concern for the IESO remains the risk that the OPG financing entity does not continue to fund the IESO funding shortfall and the OFA credit facility maximum is reached. The continued operation of the Fair Hydro Plan rate reductions without access to funding to cover the shortfall would quickly create a solvency situation for the IESO. Mr. Hume in his April presentation assured the IESO Board of Directors that the government recognized that the IESO would need some form of backstop to address this risk. Thus this request for a formal commitment from the Province to step in and fund IESO funding shortfalls in a situation where OPG has indicated it will no longer fund such shortfalls.

We ask for the Ministry of Energy's support in our discussions with OFA to increase our OFA line of credit to a sufficient amount to cover an IESO funding shortfall for a reasonable period of time and with both OFA and OEFC to enhance the credit facilities.

In addition, the IESO is playing a central role in the Fair Hydro Plan including through the creation of a regulatory asset, the conveyance of that asset to OPG's financing entity and providing a servicing role in recovering OPG's funding costs from future ratepayers. It remains uncertain what role the IESO will play in any securities offerings of OPG's financing entity but if such a role for IESO is required, it will come with heightened risk, especially if products are offered into the US market. In relation to the role IESO will play, there is increased risk of liability to the IESO, its Board of Directors, Officers and employees. This risk is in addition to the usual IESO operations risk and arises solely due to the Province's Fair Hydro Plan. Therefore, we request that a Provincial indemnity be provided for the IESO, its Board of Directors, Officers and employees for the risks relating to the IESO's role in implementing the Fair Hydro Plan.

I wish to stress the importance that the IESO's Board of Directors places on obtaining appropriate protection from the Province. I look forward to discussing these matters with you further in the near future.