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April 28, 2017

Deputy Minister Serge Imbrogno
Ontario Ministry of Energy
900 Bay Street
Hearst Block, 4th Floor
Toronto, ON M7A 2E1

Dear Deputy Imbrogno:

As the drafting of the proposed legislation to implement the Fair Hydro Plan (the "Plan) has proceeded, the IESO has gained a better understanding of the role it would play in implementing the Plan, and the associated risks posed for the company have become better defined. The IESO's Board of Directors appreciated ADM Steen Hume's recent presentation on the Plan, and in particular his assurances regarding the support and protections that the Province would provide given our expanded role. Accordingly I am writing to outline the key areas of risk we have identified for the IESO and the assurances we are seeking in that regard.

Adressing Increased Financial Exposure

The greatest corporate risk is in the years when rates for specified consumers are to be reduced resulting in a deferred amount, being the difference between the reduced amounts collected from ratepayers and the IESO's market payment obligations. The draft legislation does not require OPG or its financing entity to fund the deferred amount, although we understand this is the intent.

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 Plan and to provide a buffer to fund short periods where OPG does not fund a shortfall. In addition, we will be requesting enhancements to our OFA and OEFC lines of credit to provide 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). We would appreciate 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. This is important not only for IESO solvency but also to maintain the IESO's credit rating, as our contracted suppliers' credit arrangements are often based on the IESO maintaining a certain rating.

Even with these 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 deferred amounts and the OFA credit facility maximum is reached. The continued operation of the Plan rate reductions without access to funding to cover these amounts 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. Accordingly, the IESO requests a formal commitment from the Province that the Province will fund the shortfall if OPG (or its financing entity) does not.

Addressing Implementation and Administration Exposure

The IESO is playing a central role in the 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 – all of which drive an increased risk of liability to the IESO, its Board of Directors, Officers and employees. This is over and above the usual IESO operations risk and arises solely due to the Plan. In addition, it remains uncertain what role if any 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 exposure, especially if products are offered into the US market. To address these circumstances, we are request that a Provincial indemnity be provided for the IESO, its Board of Directors, Officers and employees to address the increased liability exposure relating to the IESO's role in implementing the Plan.

Finally, I wish to stress the importance that the IESO's Board of Directors places on obtaining appropriate and timely protection from the Province. I look forward to working with you to put these in place.

Bruce B. Campbell