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Memorandum

To: THE BOARD OF DIRECTORS
of the Independent Electricity System Operator

From: Anthony Martinello, Director Treasury and Pension Operations.

Date: July 25, 2017

Re: Status of Implementation – Ontario Fair Hydro Plan

Overview:
Ontario Fair Hydro Plan Act, 2017 (the Act) received Royal Assent on June 1, 2017. Several regulations under this Act have been enacted and published requiring work to be completed by the IESO.

This memo provides an executive overview of the Ontario Fair Hydro Plan's current status regarding the IESO's role. Appendix A is a workflow diagram of the Ontario Fair Hydro Plan related specifically to the rate reduction. The dollar amounts in the diagram are representative only. Actual monthly amounts are anticipated to be in the $200 to $300 million range.

Key Completed Milestones:
- The OEB has published the first set of Ontario Fair Hydro Plan prices (RPP prices, and GA modifier for non-RPP) which will provide specified consumers reduction in electricity rates effective for July 1, 2017 consumption until April 30, 2018. The OEB will then reset prices in a way that holds increases to the rate of inflation in accordance with the Act;
- IESO has received an Ontario government indemnification agreement to protect the IESO , directors, officers and employees for implementation of the Ontario Fair Hydro Plan;
- IESO has setup a segregated bank account to capture all Fair Hydro cash flows including the rollover of the current Regulated Price Plan amounts;
- O.Reg 280/14 (IESO: Eligible Investments and Borrowing) has been updated to permit the IESO to fund / borrow the shortfall (i.e. IESO deferral) created by the new Ontario Fair Hydro Plan's reduced prices;
- Minister of Finance has approved the IESO's updated Treasury Policy – to permit borrowing for the Fair Hydro program;
- IESO credit rating agencies have been informed of the IESO's Fair Hydro implementation / involvement. No concerns have been raised that would be an unfavourable impact on the IESO's credit ratings.

Key Milestones for IESO – Work in Progress:
- $2 billion Ontario Financing Authority (OFA) credit facility exclusively for IESO Ontario Fair Hydro Plan funding is underway to be executed. Expected to be completed by

August 1, 2017. This is in addition to the $475 million OFA credit facility which is used for other IESO programs;

- The IESO/ Financing Entity *Master Transfer and Servicing Agreement* is being negotiated with Ontario Power Generation (OPG). This agreement will set out the arrangements whereby the IESO will transfer the regulatory asset and the IESO will provide services relating to the receiving and remitting of the Clean Energy Adjustment. Expected to be completed by September 2017.
- IESO continues to work with KPMG LLC on finalizing the accounting related to the Ontario Fair Hydro Plan transactions. A separate memo to the IESO Board specifically addresses these matters in more detail.
- IESO will establish protocols and a trust account to receive and disburse the Clean Energy Adjustment amounts that will begin to be invoiced to specified consumers May 2021. Expected to be completed by February 2021.
- IESO is monitoring whether a rate recovery mechanism is expected for any remainder balance in the Ontario Fair Hydro Plan regulatory asset account. These amounts are expected to be recovered from Ontario consumers based on a rate recovery framework. Expected to be completed by February 2021 if necessary.

Key Milestones in General – Work in Progress, and Other Comments:

- OPG has yet to register with the IESO as a program participant to ensure settlement with the IESO. Expected to be completed by August 31, 2017.
- OPG is continuing to negotiate with the government to secure a government guarantee;
- IESO must supply regular forecast information on electricity consumption to both the OEB and OPG in order to assist them in establishing their Ontario Fair Hydro Plan implementation. The IESO's exact role regarding forecasting electricity consumption is not yet fully known.
- Prospectus – the IESO continues to monitor and assess the risk of whether the IESO must be a party to any Ontario Fair Hydro Plan prospectus and, where possible, attempt to structure IESO involvement in a way to avoid this result.
- First Transfer - the IESO expects to incur approximately $200 million to $300 million per month for Ontario Fair Hydro Plan funding, which is then expected to be transferred to the Financing Entity with regular frequency. The first expected transfer to Financing Entity is expected to occur in September/October 2017.

Non-Global Adjustment Matters

In addition to the Ontario Fair Hydro Plan's rate reduction and resulting IESO deferral variance (i.e. regulatory asset), below are the activities related to additional electricity rate relief that are being implemented. These rate relief programs are primarily funded from the taxpayers, not electricity ratepayers.

- All new charge types and settlement forms under the Act (inclusive of vulnerable consumer programs) have been completed and reporting requirements to Ministry and OEB have been finalized;
- The Ontario government has enacted other consumer rate reduction programs such as the Distribution Rate Protection and First Nation Delivery Credit through the Act. These other programs provide additional electricity rate relief;
- Ontario Electricity Support Program (OESP) has a new rate of zero so that existing IESO variance balance (+$100 million) can be depleted. Once depleted, amended OESP

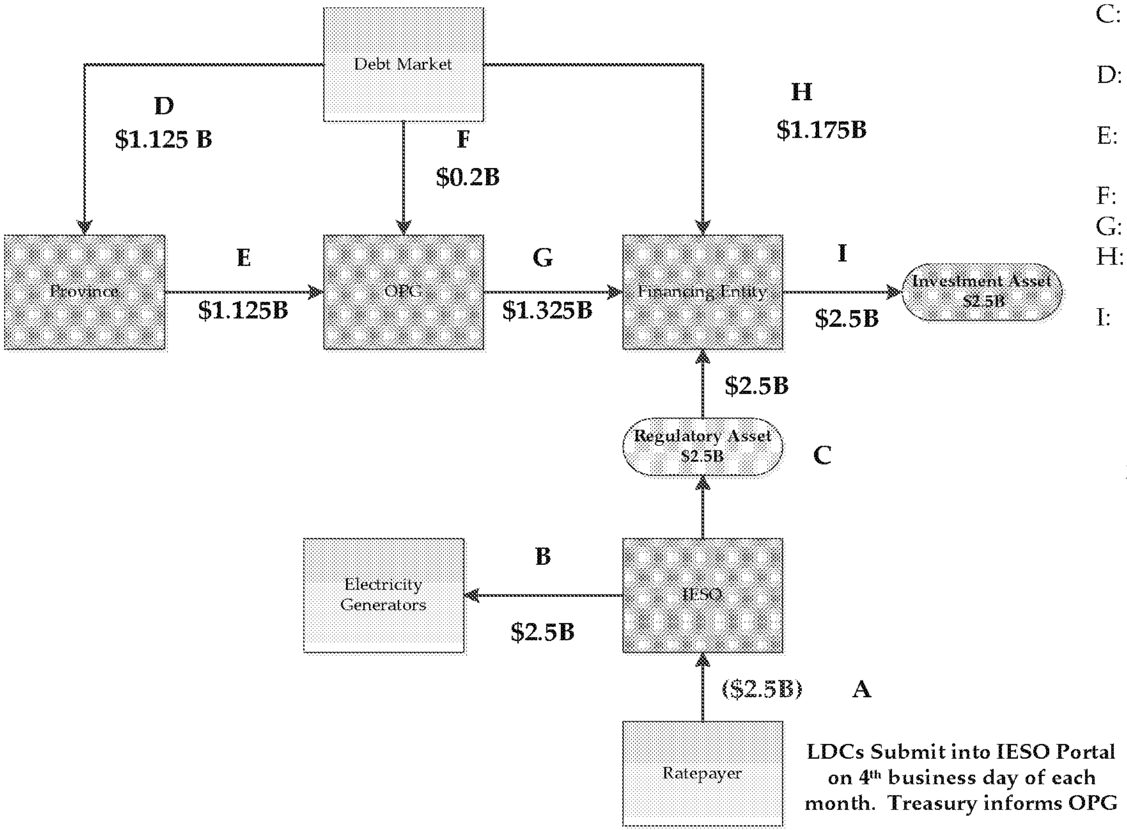
regulation to use provincial revenues to pay for the program is expected to be proclaimed by the Lieutenant Governor. Updated regulation allows for program administration to move from the Ontario Energy Board (OEB) to another entity;

Summary:
The IESO has continued to make significant progress to ensure that the IESO's role in the Act is implemented in an efficient manner with reasonable risk mitigation.

Sincerely,

Anthony Martinello Director, Treasury and Pension Operations

Appendix A



A: IESO collects $2.5 billion less from ratepayers on invoice day (12th business day)
B: IESO pays $2.5 billion to generators on payment day (14th business day)
C: IESO records a regulatory asset of $2.5 billion and transfers $2.5 billion to Financing Entity
D: Province borrows $1.125 billion (45% of shortfall) from debt markets
E: Province invests $1.125 billion into OPG as equity
F: OPG borrows $0.2 billion from debt markets
G: OPG loans $1.325 billion to Financing Entity
H: Financing Entity borrows $1.175 billion from debt markets
I: Financing Entity has financed $2.5 billion investment asset

Actual monthly amounts are anticipated to be in the $200 to $300 million range.