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May 1, 2017.

Mr. Gadi Mayman
Chief Executive Officer
Ontario Financing Authority
1 Dundas Street West, Suite 1400
Toronto, Ontario, M7A 1Y7

Re: **IESO Credit Requirements for 2017 Fair Electricity Program**

Dear Mr. Mayman,

As you are aware, on March 2, 2017 the Ontario government announced its intension to implement a program[1] ("Fair Electricity Program" or "FEP") to reduce electricity prices for consumers in the province, and it expected to introduce legislation this month for the same. The Independent Electricity System Operator ("IESO") is preparing to implement the FEP and has determined that the IESO will need further credit liquidity.

While implementing the FEP, the IESO will likely need to provide interim financing prior to any resulting transfer to the Ontario Power Generation trust ("OPG trust"). As such below we have outlined the expect credit needs with summary supporting rationale.

<u>IESO's FEP Credit Requirements and Rationale</u>

I have outlined the IESO's expected credit needs including the current Ontario Financing Authority's ("OFA") existing credit facility[2] as follows:

	OFA:IESO Facility	New FEP credit need
Current OFA:IESO credit facility	$975million	$ -
Reduction due to FEP	($550million)	$ -
Increase due to FEP	$ -	$3billion
Totals	$425million	$3billion

[1] Also known as the Fair Hydro program
[2] Does not include IESO corporate liquidity which is currently being supported by two Ontario Electricity Financial Corporation credit facilities.

As supported in the IESO's previous letter to you on October 6, 2016 regarding renewal of the $975 million facility, the above reduction of $475 million due to FEP is primarily due to the fact that the current OFA facility provides support for the Regulated Price Plan (RPP) which will be transforming into the new FEP. In addition, the Ontario Electricity Support Program ("OESP"), and part of the Rural or Remote Electricity Rate program ("RRRP") will no longer require IESO credit support as these have been changed to be taxpayer funded programs.

For the IESO's new funding needs, the IESO is basing its rationale on the following key provisions regarding the new FEP program:

- FEP proposes to lower consumers' bills during the next 4 years by about 17% with no recovery of those deferred amounts until between 2022-2047. The IESO expects OPG Trust to fund those amounts by purchasing the FEP asset from the IESO. However, OPG Trust has no requirement to make purchases of the FEP asset from the IESO;
- For any purchases made by OPG Trust, a normal level of a timing delay (liquidity, alignment for investors timing etc.) is likely normal. A one month delay is likely normal, but the IESO should be prepared for some contingency of a longer timing delay;
- The expected FEP amount is about $200 million per month or $2.5 billion per year. The monthly FEP amounts will continue to have +/- forecast variance amounts above or below what the Ontario Energy Board (OEB) forecasts for the FEP. As a result these forecast variances are expected to be funded by IESO (same as for RPP today);
- The proposed FEP plan expects that the IESO will be paying for the OPG Trust's administrative costs plus any interest costs (all of which are expected to be added to the FEP asset). These amounts too will not be recovered until post 2022.

Based on the above key points, I expect a funding commitment of $3 billion will suffice in order for the IESO to meet the FEP's regular and contingency funding requirements. In addition, the IESO's credit rating agencies will be looking to ensure that the IESO does not have a solvency issue regarding FEP of which we believe the $3 billion will continue to abate any of those concerns. Should the FEP program run into a path of troubles, the IESO believes that the $3 billion commitment will provide for sufficient time to resolve any FEP program concerns in order to take remedial action.

The IESO also expects that a separate FEP credit agreement is likely the best way forward. This way any draws can benefit from the unique requirements that we overlay for the FEP program, as such I am requesting that the OFA's FEP credit agreement consider the following key provisions:

- total commitment of CAD$3 billion – see rational above;
- 5 year term (i.e. August 30, 2022);
- interest charge : Province's cost of funds for borrowing with a similar term as determined by OFA plus 0.25 percent per annum (please note the IESO is requesting that the OFA consider a lower add-on margin e.g. 10bps, given the FEP's program unique characteristics);
- the IESO requests to permit drawings to be based on minimum of 7 days to a maximum of 95 days. This is to minimize interest costs that would be capitalized into the FEP assets.

Upon your reply to this letter, the IESO will seek any necessary IESO Board of Directors' approval for the above FEP credit facility and we will provide such evidence for the OFA's records.

We appreciate the OFA's continue support and look forward to working with you. Please contact me should you need anything further.

Sincerely,

Kimberly Marshall
Vice President Corporate Services, Chief Financial Officer and Treasurer
416-969-6232