

Message

From: Michael Boll [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=4811917E15054407B665FE16D12FF415-MICHAEL BOL]
Sent: 2017-11-30 4:49:40 PM
To: Peter Gregg [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=eecb5b8abe1a4998a2ee7b2d68b31ccc-Peter Gregg]; Kim Marshall [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=b63a22b42bf14587870d93119a054d88-Kim Marshall]
CC: Anthony Martinello [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=3fb7d76317b34780b15d96309b995c31-Anthony Mar]; Jeannette Briggs [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=148095610f7242f48a5a9da24b1a8a87-Jeannette B]; Michael Lyle [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=704afe32c06a42c78cf357ce53a5b319-Michael Lyl]; John Rattray [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=0c3134c1c2744b1ea8ff0e5ddd13dfe4-John Rattray]
Subject: Fair Hydro - timing

Peter and Kim,

A quick update on status and timing, and a question about whether we want to continue with the meeting tomorrow with Tim and Carole, or postpone it until next week. As explained below, it is not required that we have final approval of the agreements tomorrow. Since there is a small possibility of additional changes to the agreements coming out of the ratings process, we could wait to meet with Tim and Carole until next week. Alternatively, we can continue with the meeting tomorrow and if necessary convene a short meeting next week if any further changes arise. However, after the agreements have been through the ratings process it will be difficult to make further changes. Please let me know your preference.

I just spoke with OPG counsel who indicated they are now targeting IESO and OPG signing the Master Transfer and Servicing Agreement and related agreements the end of next week, or latest Monday (December 11) the following week. The timing for having final approved agreements has moved out because OPG is not going to the bond market in December, and therefore does not need to undertake marketing activities next week, for which they needed final agreements.

We have closed the open issues as among OPG, the dealers and IESO (at the negotiating team level; agreements all remain subject to final approval). The agreements are with dealers' counsel but they have agreed in principle with how the indemnity issue would be resolved. Dealers' counsel is reviewing the latest agreement drafts but we appear to be down to drafting, not substantive issues.

The next step is for the agreements to be sent by OPG to the rating agencies to complete the ratings process. It is unlikely, but not impossible, that more changes to the agreements will come out of that process.

On the indemnity, the approach taken is as described to you after the employees meeting on Wednesday. There will be no general indemnification by IESO or OPG in favour of Specified Creditors (i.e. investors who purchase the term bonds) as this would not be consistent with general market practice for term ABS deals in Canada. There will be a standalone indemnity from the IESO and OPG in favour of the Indenture Trustee on behalf of only Senior Warehouse Noteholders (i.e. banks holding short term notes). We are advised that this form of direct indemnity is not unusual for banks in this market.

As before, the indemnity would be for damages caused by IESO's breach of its obligations, representations or warranties under the Master Transfer and Servicing Agreement and should therefore be low risk given IESO's limited obligations. Two other considerations that limit IESO's risk with the indemnity to the Senior Warehouse Noteholders is that as a practical matter the potential for damage is only theoretical because the notes held by the banks do not trade

(therefore there is low risk of trading losses); and secondly the amount of exposure is limited since the current warehouse facility is capped at \$800 million.

Please let me know if you would like to talk about any of the above.

Michael

Michael Boll | Associate General Counsel

Independent Electricity System Operator (IESO) | T: (416) 969-6023
120 Adelaide Street West, Suite 1600, Toronto, ON, M5H 1T1

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