Message

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Per our conversation yesterday – here are the statements related to the FHP in our upcoming financial statements/annual report.

c) IESO is required to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* (FHP) and to engage in activities to facilitate the implementation of FHP, including,
i. entering into agreements or arrangements with any person for the purposes of the FHP
ii. engaging in activities related to making payments to and receiving payments as contemplated under the FHP and related settlement activities
iii. engaging in activities related to the transfer and administration of the regulatory asset created under the FHP, which activities may include:
a) incurring liabilities in relation to the regulatory asset
b) transferring the regulatory asset under section 26 of the FHP for consideration
c) acting as a recovery agent under the FHP.

MARKET ACCOUNTS

a) In 2017, the Government of Ontario announced its Fair Hydro Plan (FHP), which was implemented through the *Fair Hydro Act, 2017*. Under the FHP, the IESO continues to settle the market and recover Global Adjustment from customers, but as a result of the fair adjustment applicable to specified consumers (defined in the Ontario *Fair Hydro Plan Act, 2017*), the IESO collects less than the full amount of the Global Adjustment. The IESO records the shortfall together with the costs of financing the shortfall, the amounts charged to the IESO by the Fair Hydro Trust in respect of the carrying costs of the Fair Hydro Trust, when applicable, and certain other amounts in a Deferred Global Adjustment Variance account. The Regulated Price Plan Variance account balance as of July 1, 2017, was included in the Deferred Global Adjustment Variance. The FHP also shifted the cost of the Ontario Electricity Support Program (OESP) and most of the Rural or Remote Rate Protection (RRRP) program costs from ratepayer- to taxpayer-funded programs. These accounts comprise the market-regulated assets.
The cumulative amount recorded in the Deferred Global Adjustment Variance account to the end of December 2017 was $1,378,000 thousand. On December 21, 2017, a regulatory asset in the amount of $1,179,000 thousand was transferred to the Fair Hydro Trust. As a result, as at December 31, the Deferred Global Adjustment Variance account balance was $199,475 thousand, including interest and carrying charges.

In consideration of the implementation of the FHP, on May 1, 2017, the OEB rescinded the OESP charge and determined to fund the program through the credit balance in the Ontario Electricity Support Program Variance account. Therefore only payments to OESP-eligible customers are currently being made, and the balance in the Ontario Electricity Support Program Variance account at December 31, 2017, was in a credit position of $24,892 thousand, net of interest.
A new rate for the RRRP program under the FHP was effective July 1, 2017. The balance in the RRRP variance account to June 30, 2017, was $6,626 thousand. The new rate has resulted in a further under collection of $5,994 thousand (net of interest) in the second half of the year, resulting in a cumulative balance in the variance of $12,620 thousand as at December 31, 2017.

$2 Billion Credit Facility with OFA
During 2017, the IESO entered into a new unsecured credit facility agreement with the OFA, which will make available to the IESO an amount up to $2,000,000 thousand for the purpose of supporting the IESO's role in the Ontario FHP. Advances are payable at a variable interest rate equal to the Province of Ontario's cost of borrowing plus 0.25% per annum. The credit facility expires September 30, 2022. As at December 31, 2017, $971 thousand was outstanding.

c) Related Party Transactions
The IESO records the market accounts, assets, liabilities and amounts due to and from market participants held on behalf of the IAM in its statement of financial position. Included in these accounts are

amounts due to and from related parties.
The Province of Ontario is a related party as it is the controlling entity of the IESO. The Ontario Electricity Financial Corporation (OEFC), OEB, Hydro One, Ontario Power Generation Inc. (OPG), Fair Hydro Trust and Ministry of Energy are related parties of the IESO, through the common control of the Province of Ontario. Transactions between these parties and the IAM were as follows:
As of December 31, 2017, the IAM had a payable balance due to the OEFC for $31,025 thousand (2016 - $65,711 thousand).
As of December 31, 2017, the IAM had a payable balance with the OEB for $57 thousand (2016 - $ nil).
As of December 31, 2017, the IAM had a receivable balance with Hydro One of $25,018 thousand (2016 - $75,610 thousand).
As of December 31, 2017, the IAM had a payable balance with OPG for $356,611 thousand (2016 - $430,432 thousand).
In 2017 the Fair Hydro Trust paid $1,179,000 thousand and received $6,000 thousand. As at December 31, 2017, the IAM had a payable balance of $3,620 thousand (2016 - $nil).
As of December 31, 2017, the IAM had a receivable balance with Ministry of Energy for $93,854 thousand (2016 – $153 thousand).

14. FINANCIAL RISK MANAGEMENT

The IESO is exposed to financial risks in the normal course of its business operations, including market risks resulting from volatilities in equity, debt and foreign currency exchange markets, as well as credit risk and liquidity risk. The nature of the financial risks and the IESO's strategy for managing these risks has not changed significantly from the prior year.

Fair Hydro – regulatory asset
In accordance with the Ontario Fair Hydro Plan Act, 2017,
• the IESO will establish a regulatory asset as it continues to settle the market and recover Global Adjustment from customers, but as a result of the fair adjustment applicable to specified consumers the IESO collects less than the full amount of the Global Adjustment. The IESO records the shortfall together with the costs of financing the shortfall, the amounts charged to the IESO by the Fair Hydro Trust in respect of the carrying costs of the Fair Hydro Trust, when applicable, and certain other amounts, in a Deferred Global Adjustment Variance account (such amount a regulatory asset)
• IESO utilizes its credit facilities to fund the amounts recorded in the Deferred Global Adjustment variance account, and
• IESO is permitted to: a) transfer all or a portion of the regulatory asset to a financing entity, and b) after May 2021 fully recover any non-transferred asset from specified consumer.
As a result of the Fair Hydro Plan, the IESO will be required to borrow the amounts to be recorded in the Deferred Global Adjustment Variance Account (see the bulletin above). The IESO has a current $2 billion line of credit with the OFA (see Debt Note 7) with a maturity date of September 30, 2022, to fund these amounts. The IESO expects to continue to transfer the regulatory asset to the financing entity and use the funds of such transfer to reduce the amounts borrowed. However, the financing entity is not obligated to purchase any transfer(s) offered by the IESO, and therefore the IESO is potentially subject to liquidity risk.

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