Provincial Protection and Assurances

Change in Law Risk

- Holders of Fair Hydro Plan debt could be negatively impacted by:
  - Changes to legislation or other discriminatory action by the Province as no government can limit the ability of future governments to amend or enact legislation or take other actions as it may deem appropriate
  - Court decision that the Fair Hydro Plan does not have the authority to levy the charge to consumers or declares any funding obligations to be invalid or unenforceable
  - Changes to the organization, structure or operations of the IESO or the electricity market
- Debt is not financeable without protection for these risks
- Risk is addressed through contractual guarantee that would be triggered upon the occurrence of specified events
- If guarantee is triggered there would not be an acceleration of payment
- If guarantee is triggered the Province would step in to service the obligations of the financing entity
- Guarantee may need to be revised at a future date, or approval from the Province may be required, if the financing entity must access US market as investors in that market will likely require additional compensation if the guarantee is triggered

Risks Not Covered by Provincial Guarantee

Short Term Debt Financing Takeout Risk

- Monthly purchases by the financing entity would initially be financed using short term debt as the financing entity needs to warehouse a larger amount for efficient execution in the term debt markets
  - Short term debt providers are exposed to the risk that takeout funding is not available in term debt markets for a period of time
- If this short term debt is not repaid by the end of the short term debt facility commitment this risk is addressed through an escalation of the pricing of such short term debt:
  - Interest rate for short term debt increases by a specified amount at the time of the event until the moratorium period ends
  - Thereafter, interest rate increases by a further specified amount for every additional 6 month interval during which the short term debt remains unpaid

LDC Commingling Risk

- Clean Energy Adjustment amounts will be collected from consumers by LDCs and held until remitted to the IESO / financing entity. For any LDC which is not rated or non-investment grade rated by each of the rating agencies which are rating the funding obligations, the agencies will require these LDCs to remit collections daily, unless other credit mitigants are established
- The majority of LDCs are not rated and it would be cost prohibitive to establish ratings for these entities; 10 LDCs are collectively rated by S&P, DBRS and Moody's (Moody's only rates Hydro One)
  - It is estimated that LDCs not rated by any agency deliver power to ~25% of the Ontario electricity market
- This risk is addressed through providing the financing entity with a letter of credit:
  - Amount of letter of credit is approximately one to two month's estimated collections from all unrated or non-investment grade LDCs
  - Letter of credit to be provided by the IESO on behalf of the LDCs
  - Cost of the letter of credit and any amounts drawn can be recovered by the IESO through the Global Adjustment
- Alternatively, this risk may be addressed by the IESO depositing funds into a commingling reserve account for a similar amount or the IESO contractually agreeing to assume responsibility for paying the CEA amounts required to be remitted by such LDCs