Message

From: Peter Hamilton [PHamilton@stikeman.com]
Sent: 2017-09-20 2:42:23 PM
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Subject: RE: Fair Hydro -- IESO/OPG Meeting

Responses below in red:

Peter,

A couple of questions:

1. You mention that cost and taxes "would also not be covered". We think that they are to be covered and wondered if the insertion of "not" was intentional.

I had understood from the call that taxes and other costs and expenses of the financing entity were not to be captured through the funding rebate (I asked the question specifically) . That said, I do not think that the issue raises any additional structural issues so please clarify the ask.

2. We are not sure what the last sentence of the first paragraph means since the true-up does not apply until after the moratorium.

While it is true that no CEA is being calculated until the end of the deferral period, the "true up amount" is calculated cumulatively in respect of the current and all preceding reference periods (See Section 6 of the Regs). The definition of "Reference Period" in the FHA refers to periods starting on July 1, 2017. I do not think that there is a big substantive point here, but we do need to make sure as a technical matter that we are not generating either an artificial positive or an artificial negative true up amount during the deferral period which would then be taken into account in the calculation of the CEA for the first reference period after the deferral period.

Michael K. Feldman

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TORYS LLP

From: Peter Hamilton [mailto:PHamilton@stikeman.com]
Sent: September-20-17 10:16 AM
To: Ramchandani, Rima <rramchandani@torys.com>; RYFA Ken -TREASURY <ken.ryfa@opg.com>; Michael Boll <Michael.Boll@ieso.ca>; Myers, Jonathan <jmyers@torys.com>; Mansoori, Nina <nmansoori@torys.com>; Glenn Zacher <GZacher@stikeman.com>; Anthony Martinello (Anthony.Martinello@ieso.ca) <Anthony.Martinello@ieso.ca>; LEE John -TREASURY <john.s.lee@opg.com>; 'WONG Leslie -LAWDIV' <leslie.wong@opg.com>; Feldman, Michael

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Subject: RE: Fair Hydro -- IESO/OPG Meeting

Just to confirm the proposal we are asking KPMG to consider:

The Regulations under the Fair Hydro Act will be amended to impose a "regulatory obligation" upon the IESO to pay an amount to the financing trust monthly over the first four years (the deferral period) equal to the financing charges actually incurred by the financing trust on account of interest (and not principal). Contrary to earlier proposals costs and taxes of the financing trust would also not be covered. The IESO would require financing to bridge the gap between payment of this amount and recovery of the related GA amount. Either both of the interest cost and the funding receipt, or neither of them, will be counted for purposes of the true-up calculation.

IESO will provide security for this obligation in the form of a general security agreement charging all of IESO's assets, including in particular its present and future receivables and rights in relation thereto. The general security agreement will provide that on a monthly basis all receipts will be applied first by the IESO on account of the regulatory obligation. (NTD: If asked to give an opinion in respect of this GSA, our opinion would need to be limited to present receivables).

The Regulations under the Electricity Act will be amended to provide that the amounts paid are recoverable by the IESO under the GA in Section 25.33 of the Electricity Act.

By operation of the rate cap, this additional GA amount will lead to an increased negative variance and will give rise to a regulatory asset, which, in the ordinary course would be Transferred to the financing trust. The purchase price payable to the IESO would retire the related financing,

If I am missing, or have misstated, something please let me know.

Peter Hamilton

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