PEHT - updated review
Jan 18/18

Fair Hydro Trust
Investor Presentation

January [xx], 2018

Denotes Major Change

Introduction

<Keep>

Ontario's Fair Hydro Plan

- The Province of Ontario announced its Fair Hydro Plan (FHP) ~~on March 2, 2017~~, which proposed to lower the average electricity bill for eligible customers[1] ~~(referred to as Specified Consumers)~~ by 25% (the "Fair Adjustment")
- The 25% reduction includes an 8% rebate equivalent to the provincial portion of the harmonized sales tax granted by the Ontario government in January 2017
- ~~It is expected that the rate reduction will be in effect until April 30, 2021, with any rate increases until that date limited to the rate of inflation in Ontario~~

Legislation

- On June 1, 2017, the Ontario government passed the *Ontario Fair Hydro Plan Act, 2017* (~~together, with the regulations promulgated thereunder,~~ the "FHPA" or "Act") to give effect to the FHP~~, legislation that reallocates certain electricity costs over time and provides immediate rate relief contemplated by the Fair Hydro Plan to Specified Consumers~~
- The FHPA was enacted to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future Specified Consumers and to provide fairness for Specified Consumers over time
- The FHPA is supplemented by ~~regulations~~ related to the implementation of the FHPA (the "Regulations" and together with the FHPA, the "Legislation") the CEA
- The FHPA imposes an irrevocable and non-bypassable charge recoverable from Specified Consumers and referred to as the Clean Energy Adjustment (CEA); ~~that~~ will be determined by Ontario Power Generation (OPG) in accordance with the Legislation in its role as Financial Services Manager under the Act under the Legislation
- The CEA will be determined for each six month reference period and converted by the Ontario Energy Board (OEB) into a $/kWh rate and added to electricity invoices sent to Specified Consumers commencing on May 1, 2021
- From July 1, 2017 to April 30, 2021 (the "Moratorium Period"), no payments in respect of CEA ~~will~~ are expected to be collected; during ~~this~~the Moratorium ~~p~~Period the Independent Electricity System Operator (IESO) is obligated to pay all funding and other expenses of the Trust (excluding principal) (referred to as "Carrying Costs") under ~~the RegulationsLegislation~~

Fair Hydro Trust

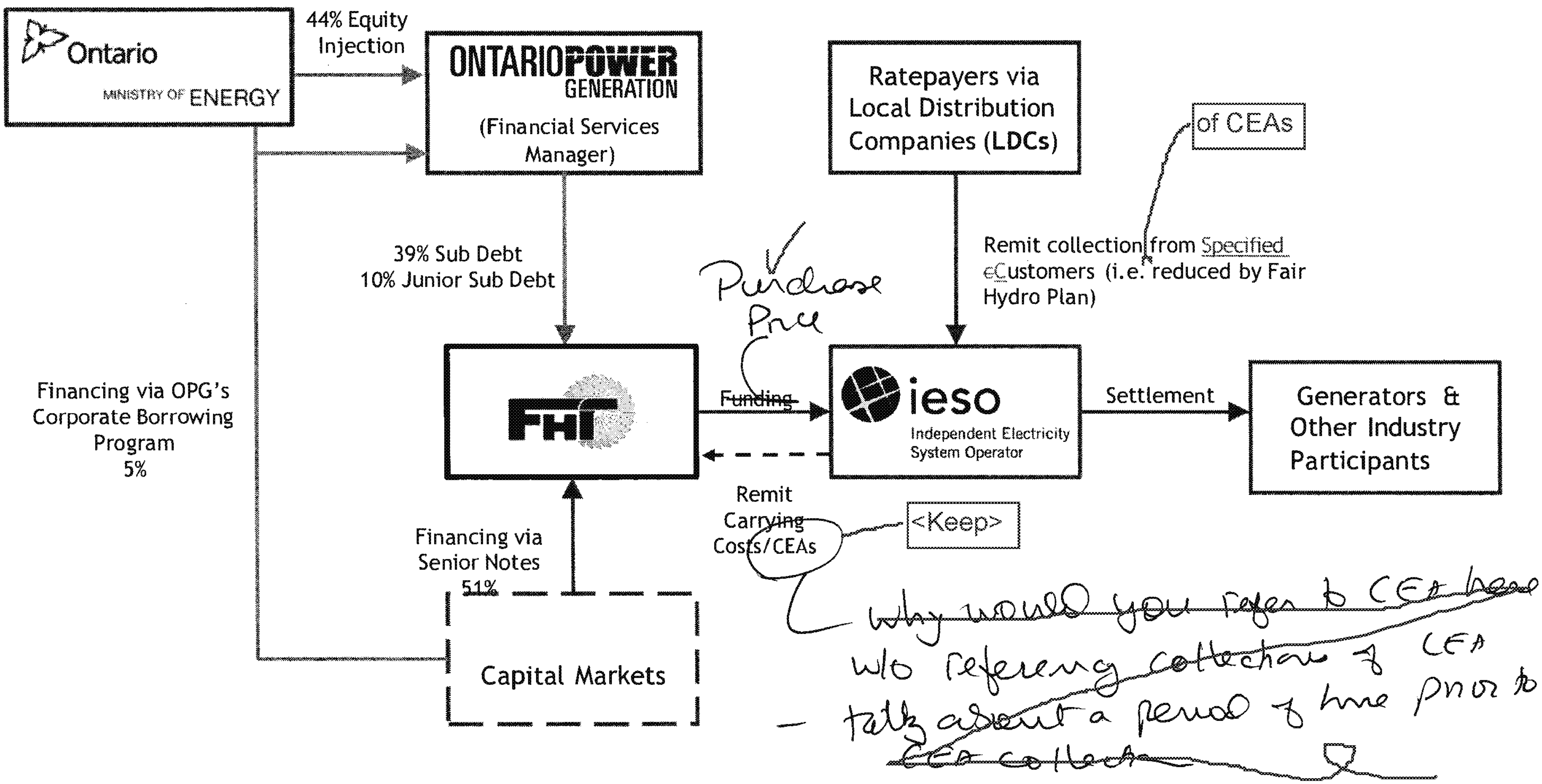
- The implementation of the Fair Hydro Plan will be financed by the Fair Hydro Trust ("FHT", the "Trust" or the "Issuer") through the issuance of senior, subordinated and junior subordinated notes
- Structured to be bankruptcy remote and even though consolidated by OPG on an accounting basis is ring fenced from OPG's other creditors
- The FHT term notes will be repaid through the CEA payments received from Specified Consumers

[1] ~~Primarily Regulated Price Plan-eligible customers~~ Defined as Specified Consumers under the FHPA.

FHT

Transaction Structure

- Concurrent with every issuance of senior notes, it is expected that OPG will purchase subordinated debt and junior subordinated debt of the Trust in an aggregate amount not to exceed 49% of all outstanding debt
  - The subordination amount may vary but must at least be equal to or greater than 35% of all outstanding debt



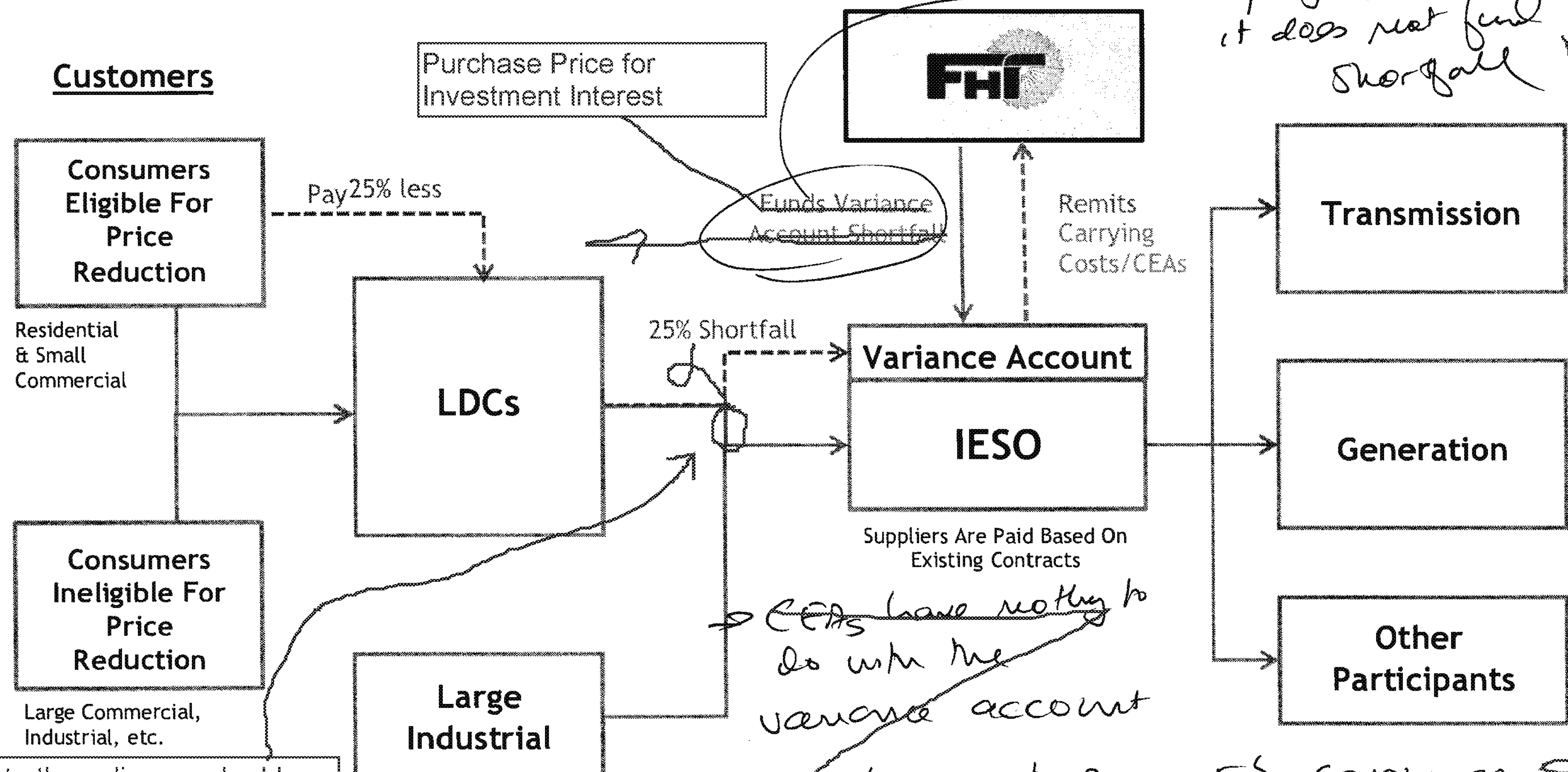
and related financing costs

Electricity Market with FHT

~~financing costs are included in the deposits of IESO deferral~~

- Under the FHPA, each month the IESO determines the IESO deferral (the shortfall that results from the Fair Adjustment) and records this amount, together with financing costs and other related, in a variance account
- FHT will finance the shortfall and is entitled to recover its costs and the principal and interest on its debt through CEAs from Specified Consumers

pays purchase price — it does not fund shortfall



→ ~~CEAs have nothing to~~ do with the variance account

<Separate these lines and add a separate solid line from LDCs to IESO>

> No reference to payment by consumers ~~of CEA – or payment is "out of the blue"~~

Legislation Overview

Specified ✓

Purpose	• The FHPA was enacted to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future ~~Specified~~ Consumers • Clean energy costs are costs allocated to ~~consumers~~ as a result of Ontario's clean energy initiatives; clean energy benefits are benefits that accrue to both present and future electricity consumers
Specified Consumers	• A category of consumers that generally is comprised of residential consumers, small businesses and farms • Includes consumers with a demand for electricity of 50 kW or less or those that use not more than 250,000 kWh of electricity annually
Rate Reduction Period	• **July 1, 2017 - April 30, 2018** - Specified Consumers charged an invoice amount that is 25%[1] less than the regulated rate that would otherwise have been determined by the OEB; the 25% reduction includes an 8% rebate equivalent to the provincial portion of the HST previously granted by the Ontario government • **May 1, 2018 - April 30, 2019** - regulated rate established in the first year of the Rate Reduction Period anticipated to increase by the rate of inflation in Ontario • **May 1, 2019 - April 30, 2021** - rate reductions will be established by future regulation but anticipated to increase by the rate of inflation in Ontario

[1] Based on a typical Toronto Hydro customer; the amount of the reduction for any given Specified Consumer may vary from this account.

and related financing costs

Legislation Overview, cont'd

~~+ carrying costs paid~~
+ financing costs
~~+ other items~~

Regulatory Asset

- Each month the IESO determines the IESO deferral (the shortfall that results from the Fair Adjustment) and records this amount, together with the costs of financing the shortfall, in a variance account
- The IESO has the right to recover the balance recorded in the variance account from Specified Consumers (such right is the Regulatory Asset)
- The IESO may from time to time transfer a specified portion of the Regulatory Asset to the Trust for a cash purchase price equal to the corresponding amount recorded in the

Investment Asset

- The Trust is not obligated to purchase Regulatory Assets from the IESO
- If the IESO and the Trust agree to the transfer of a specified portion of the Regulatory Asset, such transfer results in the creation of a current and irrevocable property right that is immediately vested in the Trust (such right is an Investment Interest)
- By acquiring an Investment Interest, the Trust will be entitled to recover all of its associated financing costs and acquires the right to ~~impose, invoice,~~ collect, receive and recover CEAs from Specified Consumers in accordance with the Legislation

Moratorium Period
(July 1, 2017 to April 30, 2021)

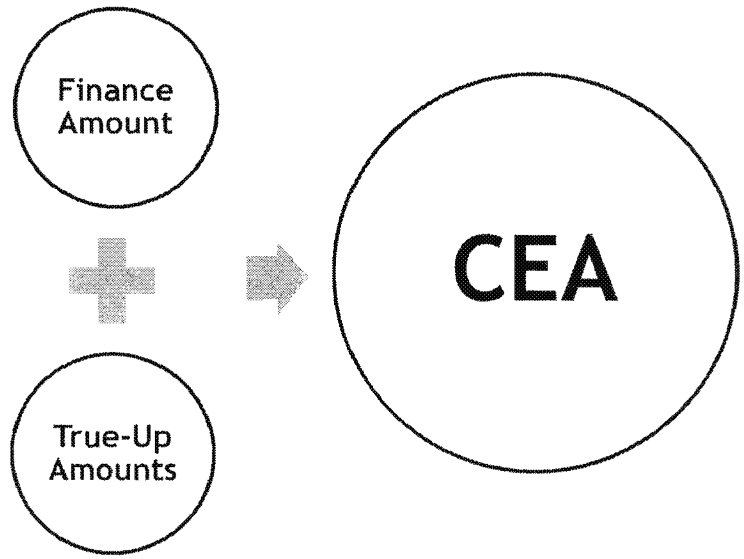
- CEAs are not permitted to be collected from Specified Consumers during this period
- The IESO is obligated to pay the Trust all Carrying Costs, excluding repayment of principal on any debt obligations, during the Moratorium Period and extending to July 31, 2021. The Carrying Costs incurred by the IESO will be added to its Regulatory Asset variance account pursuant to Regulations
- As security for the performance of its obligations, the IESO has granted the Trust a first-priority security interest in ~~all of~~ its accounts receivable owing by Electricity Vendors to the IESO
- The IESO has a $2 billion general credit facility from the Ontario Financing Authority (OFA) which can be used among other things to ~~pay~~ fund payments of the Carrying Costs

FHI

Clean Energy Adjustments

financing and other costs relating to the acquisition by the Trust of the Investment Asset

- Under the FHPA, the CEA is the amount payable by Specified Consumers to cover the ~~cost of the IESO deferral financing the shortfall from the Fair Adjustment~~ and the associated costs of the financing, including payment of principal, operating costs of the Trust and funding of reserve accounts
- CEAs shown on an invoice issued to Specified Consumers represent the amount of the consumers' indebtedness and may not be set off or bypassed



Finance amount is an estimate of the amount payable by the Trust mainly in respect of principal payments, interest costs, Trust expenses and taxes, reserve account deposits and derivative payments

True-up amounts capture the difference between the finance amounts incurred by the Trust and the CEAs collected from Specified Consumers and also include other reasonably foreseeable differences due to various factors (e.g. consumer defaults and delays, billing lags, write-offs and variations in electricity consumption)

Billing and Collection of CEAs

- CEA amounts for billing and collection purposes will be managed outside of the IESO's current settlement processes set out in the Market Rules for electricity invoice amounts
- Collection risk for CEA amounts are mitigated through statutory rights in the FHPA, the ~~collection~~ obligations of the IESO under the Master Transfer & Servicing Agreement ~~(MTSA)~~, and ~~the~~ ability to include amounts in the CEA by means of the ~~into the~~ true up mechanism
- IESO is ~~allowed to commingle~~ required to seperate ~~the CEAs during a monthly period~~ before remitting to FHT. If the IESO's credit rating is downgraded below investment grade, ~~it will not be allowed to commingle CEAs and will remit~~ the IESO will be required to remit within two business days of receipt

hold the CEAs received from LDCs in a segregated account

1 Financial Services Manager

Determines the CEA for each month in a reference period and notifies the OEB of the CEA amount

IESO

~~Forecasts~~ Provides forecast information ~~regarding consumption volume of Specified Consumers~~ and notifies the OEB

2 OEB

Determines volumetric rates[1] to invoice Specified Consumers to recover CEA expressed as a cent per kWh

3 Electricity Vendors

Invoice Specified Consumers for CEA amount by using volumetric rate set by OEB and report the amount invoiced and collected from consumers to the IESO

4 Specified Consumers

Must pay invoice from Electricity Vendors which includes the CEA amount

5 Electricity Vendors

Must collect CEA amounts from Specified Consumers, hold amounts in a segregated account and remit CEA amounts to the IESO (separate from any other amount collected and remitted)

6 IESO

Must receive CEA amounts paid by Electricity Vendors, hold CEA amounts in trust in a segregated account and remit the CEA amounts to the Fair Hydro Trust

[1] The rates will be determined by dividing the CEA amount by the forecasted energy consumption in the reference period by Specified Consumers.

FHT

IESO-N-0049028

Key Agreements (cont'd)

portions

Note: moved to Appendix

Master Transfer and Servicing Agreement

also

specified portions of

Parties	• (1) IESO, as transferor and servicer; (2) Trust
Purpose	• Provides for the transfer, by the IESO to the Trust of the Regulatory Asset, and upon such transfers the Trust acquires an Investment Interest, ~~and~~ describes the servicing obligations of IESO
Key Terms	• **Transfer of Regulatory Asset**: The IESO may offer, no more frequently than monthly, to transfer ~~the~~ specified portions of the Regulatory Asset to the Trust. The Trust has the right, but not the obligation, to accept IESO's offer • **Servicing Duties:** The IESO will be responsible for servicing the Investment Interest under the legislation~~regulations~~, including ~~collecting~~ receiving CEA amounts from Electricity Vendors and remitting the same ~~to~~ the Trust~~, including:~~; other duties of the IESO include: – Establishing a segregated account for collecting CEAs and using commercially reasonable efforts to cause Electricity Vendors to do the same; – ~~Collecting Receiving CEAs from Electricity Vendors;~~ (duplicate) – Remitting CEAs monthly to the Trust (unless downgraded below investment grade in which case it will remit daily); – Preparing monthly servicer reports; and – Providing a ~~F~~forecasting ~~ing~~ of electricity consumption ~~of Specified Consumers~~ • ~~**Moratorium Period**:~~ ~~During the Moratorium Period (until April 30, 2021) and extending to~~ Until July 31, 2021, the IESO is required by regulation to fund all Carrying Costs of the Trust. The Carrying Costs incurred by the IESO will be added to its Regulatory Asset variance account pursuant to regulation. • **IESO Letter of Credit:** After the Moratorium Period, the IESO will provide the Trust, a letter of credit or other form of security, as security for the commingling risk of CEAs collected by non-rated or non-investment grade rated Electricity Vendors and not yet remitted to the IESO

Carrying Costs

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Risk Mitigation

Risk	Description of Risk	Mitigants
Political Risk	• Future legislative action to change or challenge/invalidate the Act or the Change of Law Protection Agreement might materially adversely affect a holder's investment in the Notes	• Limited Guarantee provided by the Province of Ontario via the Change of Law Protection Agreement in favour of the Indenture Trustee for lenders/investors in these circumstances
Under Collection	• If the IESO inaccurately forecasts electricity consumption or if OPG uses inaccurate consumer delinquency or write-off data when setting the CEA, there could be a shortfall in collections, which might result in missed or delayed payments of principal and interest on the Notes	• True up mechanism may result in a delay, but will be corrected in next True up • Cash reserve and 35%-49% subordination which would first absorb any shortfalls • 6-month reference period • Any shortfall in collections are recoverable from all Specified Consumers
Reliance on IESO and LDCs	• Until July 31 2021 ~~During the Moratorium Period~~, the Trust is dependent on the IESO to remit payments to the Trust for all Carrying Costs~~to pay for all Carrying Costs~~ • Receipt of CEAs dependent on the performance of LDCs and IESO • Limited ability to enforce against or replace an~~on~~ LDC	• Highly regulated industry and LDC and IESO are required under law and regulation to perform duties under FHP • IESO has a very strong credit profile and very low losses and grants security over ~~all of~~ its accounts receivables owed by Electricity Vendors as security during the Moratorium Period • IESO will provide a letter of credit/other security to mitigate commingling risks for CEAs held~~for the commingling of CEAs~~ by non-rated or below investment grade rated LDCs until they are remitted to IESO • LDCs collect security deposits and, when permitted, have the ability to disconnect service for non-payment • $2 billion ~~general~~ credit facility from the OFA which can be used by the IESO to pay ~~the Carrying Costs~~
Size of Charge vs. Bill	• If the charge applied to bills becomes too high, there could be a consumer and/or political backlash	• ~~20-year repayment~~ period allows for gradual rate increases • Max CEAs as a percent of the total bill over collection period is forecast to be ~10%
Disruptive Technology Risk / Change in Demographics	• Technological developments may result in reduced CEA payments as a result of increased use of alternative energy sources • Population fluctuations may result in fewer Specified Consumers	• True-up mechanism available to offset the reduction in CEAs due to technological advancements or fluctuations in the number of Specified Consumers • Collection shortfalls are allocated among a large base of Specified Consumers

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