MOODY'S
INVESTORS SERVICE

CREDIT OPINION
22 January 2018

Pre-Sale

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Estimated Closing Date

February 2018

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Fair Hydro Trust, Series 2018-1

Pre-Sale - Canada's first issuance of ABS backed by utility cost recovery charges

Capital structure

Exhibit 1
Provisional (P) ratings

Series 2018-1	Provisional Rating	Amount ($m)	Coupon (%)	Expected Maturity	Principal Payment Default Date*	Initial Subordination
Senior Notes	(P)Aa2 (sf)	TBD	TBD	15 May 2033	15 May 2035	49.00%
Subordinated Notes	(P)Aa2 (sf)	TBD	TBD	15 May 2033	15 May 2035	10.00%
Junior Subordinated Notes	(P)Aa2 (sf)	TBD	TBD	15 May 2033	15 May 2035	0.00%

* The ratings address the expected loss posed to investors by the principal payment default date. In our opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the principal payment default date. Our ratings address only the credit risks associated with the transaction. Other non-credit risks are not addressed, but may have a significant effect on yield to investors.
Source: Fair Hydro Trust Confidential Shelf Offering Memorandum and Moody's Investors Service

Summary

We have assigned provisional ratings to the Series 2018-1 notes (the notes) to be issued by Fair Hydro Trust (FHT or the Issuer), which was established in connection with the Ontario Fair Hydro Plan Act, 2017 (the FHPA) to finance a temporary electricity rate reduction for all residential consumers, small businesses and farms (specified consumers) in the Province of Ontario (Aa2 stable) in accordance with the terms of the FHPA and related regulations.

Specifically, FHT will purchase and finance an investment interest in a regulatory asset (the investment asset). The regulatory asset represents the right to recover the difference between (i) the reduced electricity costs paid by specified consumers in the Province of Ontario under the FHPA, and (ii) the higher actual costs payable for that electricity. All debt incurred by FHT to finance the investment interest is recoverable through a "Clean Energy Adjustment", which is a special charge (the recovery charge) to be imposed on the electricity bills of all specified consumers in the Province, starting in May 2021 and continuing through April 2047. The notes will be the first term series of utility cost recovery notes issued by FHT, which is serviced by Ontario's Independent Electricity System Operator (IESO; Aa2 stable).

Our provisional ratings on the notes reflect our assessment of (1) the strength of the FHPA and the related regulations authorizing the creation and recovery of the investment asset; (2) the credit enhancement in the form of a mandatory uncapped true-up mechanism; (3) the size, stability and diversity of the Province's ratepayer base; (4) the ability and experience of the IESO, as servicer, and; (5) the integral role of the Province of Ontario, and related entities, in the creation and operation of the Fair Hydro program and as guarantor to address the risk of a future adverse change in law.

The program as structured and under current law and regulations is considered to be of similar credit quality to US utility cost recovery programs rated by Moody's. However, the FHT program's 30-year term, combined with the pervasive role of the Province and its related entities in many aspects of this transaction, increase the risk that the Province could make future changes to the law or related regulations that could adversely affect the outstanding obligations under the FHT program. The Provincial guarantee is a mitigant to this risk, but it is not as robust as the constitutional protection found in similar US programs. Accordingly, we have linked the provisional ratings of the notes to the Aa2 rating of the Province. Future changes to the Province's rating will result in similar changes to the ratings of the notes.

Credit strengths

Strength of the law and regulations: The FHPA, coupled with the related regulations, permits the securitization program and protects the investment asset securing the notes. The legislation deems that the investment asset and the related rights to collection are a current and irrevocable property right and interest. In addition, the FHPA contains the typical strong true-sale and security interest provisions.

The law effectively authorizes the Issuer to recover all debt incurred by the Issuer to acquire the investment interest, plus related debt service costs and expenses of FHT, through collecting the monthly recovery charges from all existing and future specified consumers of electricity in Ontario. Ownership of the investment interest grants the Issuer the irrevocable right to impose, bill and collect non-bypassable recovery charges based on electricity usage, plus related rights, including the ability to periodically adjust the charges through a mandatory uncapped rate setting and true-up mechanism to ensure timely debt service payments until all the notes are repaid in full. In this context, "non-bypassable" means that the Issuer must levy the charges on all of the existing and future specified consumers receiving electricity distribution services in Ontario and those consumers may not legally avoid payment of such charges.

Rate Setting and true-up adjustment mechanism: The rate setting and true-up adjustment mechanism is the key form of credit enhancement supporting the notes. The legislation and the related regulations authorize a rate setting process that mandatorily adjusts the recovery charges semi-annually (and more frequently if required) to ensure timely debt service payments. The semi-annual rate setting incorporates a true-up to capture any shortfalls in collections from previous periods.

Strength of the ratepayer base: The size, economic stability and diversity of the ratepayer base in Ontario is a credit strength. The service area covers the entire province and the category of specified consumers is comprised of about five million residential and small commercial customers. There are no industrial customers included in the program, which is a credit positive because energy consumption by industrial customers is more dependent on economic conditions and therefore tends to be more volatile.

Strength of the servicer: We rate the IESO at a Aa2 with a stable outlook. The IESO is responsible for operating the real-time electricity market in Ontario. It does not have any shareholders or owners, but it is governed by an independent board of directors appointed by the Minister of Energy for the Province of Ontario.

Credit challenges

Change of law: There is no Canadian equivalent to the US protection of property rights under the federal and state constitutions. As such, the transaction is exposed to the risk of future adverse changes to the FHPA, the related regulations, the investment interest, or the recovery charges over the term of the FHT program that could reduce the ability of the Issuer to make timely payments on the notes. To help mitigate this risk, the Province has entered into a Change of Law Protection Agreement with the Issuer, under which it agrees to guarantee the debt service payments of the Issuer upon a change in law or regulation that has an adverse impact on the Issuer's ability to make all debt service payments when due.

In similar US utility cost recovery transactions, the state that passes the securitization law pledges to and agrees with bondholders and the issuer that it will not 1) take or permit any action that limits, alters or impairs the value of the property right, or 2) reduce, alter or impair the charges that are imposed, collected and remitted for the benefit of the bondholders until the bonds have been repaid in full. We view it as a remote risk that the state would take legislative action that compromises its non-impairment pledge to the significant detriment of bondholders because impairment would give rise to claims under state and federal laws prohibiting impairment of contracts and reasonable reimbursement under state and federal "taking" claims.

Delayed collection period: Interest and other costs incurred by FHT prior to the start of the collection period in May 2021 will be paid monthly in advance by the IESO as servicer, as required under the regulations. The IESO will have the ability to capitalize those costs by adding them to the balance of the regulatory asset, and may subsequently recover those costs through the sale of an investment interest to FHT.

Decentralized Billing and Collection: The decentralized nature of the billing, collection and remittance process for the recovery charges gives rise to operational and cash commingling risk. All billing and collection of the monthly recovery charges will be done through local electricity distribution companies (LDCs), which under the FHPA are required to add the recovery charge to each customer's bill, then collect and remit those charges each month to the IESO as servicer for the Issuer. In Ontario, all electricity is delivered to residential and small commercial companies through LDCs, which purchase electricity through the IESO in the real-time market and sell it to customers in their respective local distribution areas. LDCs are predominantly municipally owned, and all have a regulated monopoly in their service area. Recovery charges collected by the LDCs are required to be immediately transferred to segregated accounts held in trust for FHT, remitted to the IESO on a monthly basis, and then remitted on to FHT.

Potential for insufficient collections: Collections arising from the investment interest could fall short of required distributions on the notes as a result of inaccurate forecasting of electrical consumption by the servicer, unanticipated customer delinquencies and defaults, population migration or self-generation, including solar and wind. Customers that self-generate will only be responsible for paying the charges based upon their electric consumption provided that they are connected to the electricity grid. The IESO's estimates of market demand, energy prices and growth within its service area could also be inaccurate. These concerns are substantially mitigated through the mandatory uncapped rate adjustment mechanism, in which the recovery charges are adjusted on a semi-annual basis to ensure timely debt service payments on the notes. True-up adjustments for shortfalls in collections from previous periods are incorporated into this process, and can occur on an interim basis as needed.

Key characteristics

Exhibit 2

Asset characteristics

Assets:	Investment interest in a regulatory asset, which consists of all rights and interest of the Issuer under the FHPA and related regulations, including the right to impose, bill, collect and receive irrevocable, binding, non-bypassable charges based on the usage of electricity from all existing and future specified consumers receiving electricity distribution service in the Province of Ontario
Service Area:	The Province of Ontario spans more than one million square kilometers, including the cities of Toronto, Mississauga and Ottawa, and the electricity grid supplies service to approximately 5 million residential and small commercial customers.

Sources: Fair Hydro Trust Confidential Shelf Offering Memorandum and Moody's Investors Service

Exhibit 3

Securitization Structure

Credit Enhancement				
			Initial Subordination	
	Class Size	**Rating**	**As % of Note Balance**	**As % Of Class**
Senior Notes	51.0%	(P)Aa2 (sf)	49.0%	96.1%
Subordinate Notes	39.0%	(P)Aa2 (sf)	10.0%	25.6%
Junior Subordinate Notes	10.0%	(P)Aa2 (sf)	0.0%	0.0%

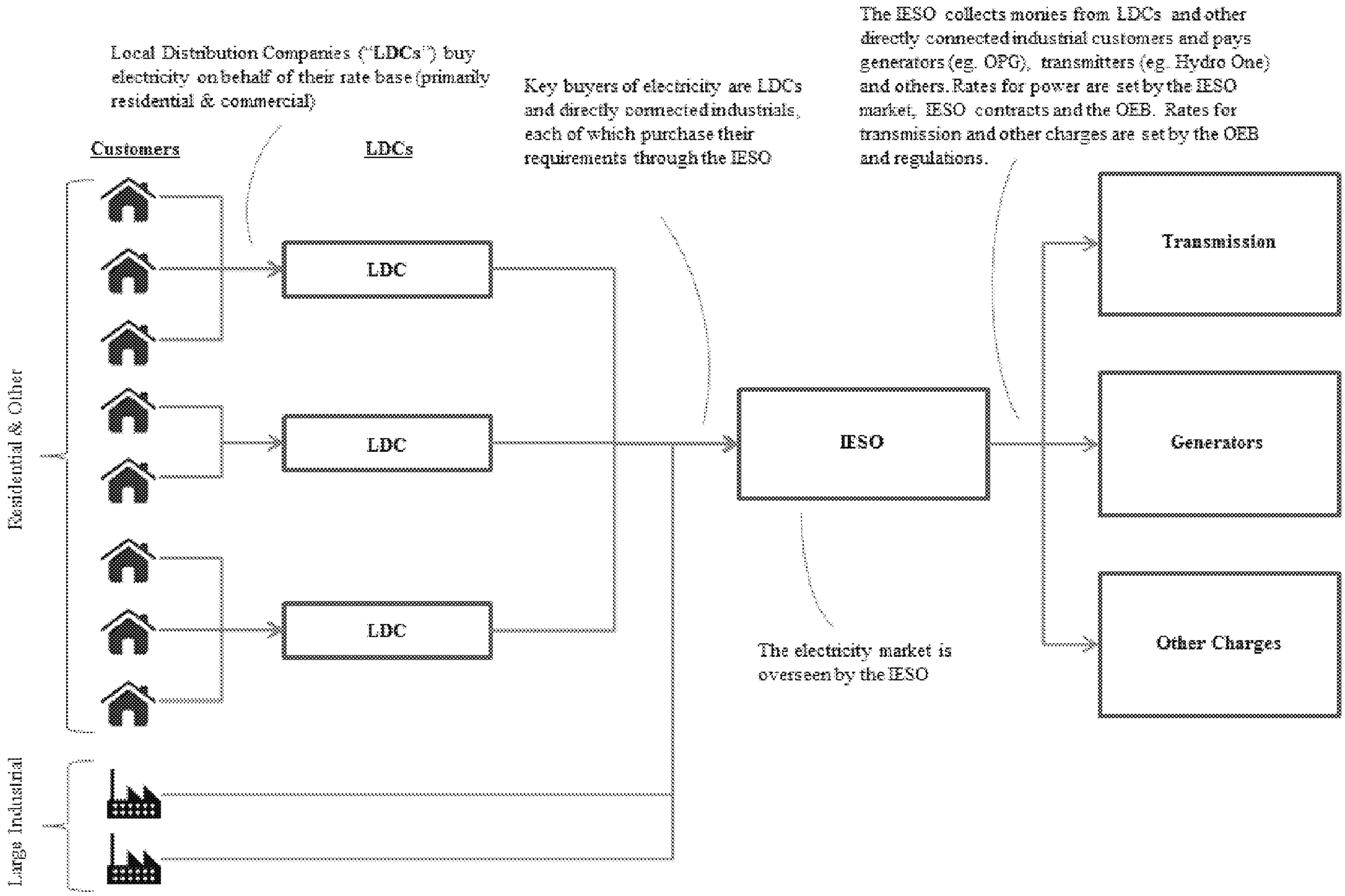
Payments	
Interest Payments	Semi-annually in arrears on the 15th day of May and November
Principal Payments	Soft bullet on the expected final payment date
Securitization Structure Characteristics	
Issuing Entity	Fair Hydro Trust
Originator/Seller/Servicer	Independent Electricity System Operator (Aa2 stable)
Credit Enhancement	Mandatory uncapped true-up mechanism, subordination
Financial Services Manager	Ontario Power Generation Inc. (NR)
Indenture Trustee	BNY Trust Company of Canada (NR)
Issuer Trustee	Computershare Trust Company of Canada (NR)
Lead Underwriter(s)	CIBC World Markets Inc., Goldman Sachs Canada, Inc., RBC Capital Markets

Source: Fair Hydro Trust Confidential Shelf Offering Memorandum and Moody's Investors Service

Ontario Electricity Industry

The Ontario electricity industry is principally comprised of three components: Generation, Transmission and Distribution. The IESO is at the center of this highly regulated market.

Exhibit 4
Ontario Electricity Industry



Source: Fair Hydro Trust Confidential Shelf Offering Memorandum

Asset description

The notes are secured by the Issuer's investment interest in a regulatory asset (the investment asset), which consists of all rights and interest of the Issuer under the FHPA and related regulations to impose, bill, collect and receive irrevocable, binding, non-bypassable charges based on the usage of electricity from all existing and future specified consumers receiving electricity distribution services in Ontario.

The notes are also secured by funds on deposit in the collection account and reserve accounts, the Issuer's rights under the various transaction documents, all payments on or under the pledged collateral and all proceeds arising from the pledged collateral.

The securitization law

The FHPA was passed on 1 June 2017, to reallocate certain electricity costs over time and provide rate relief to specified consumers. Further clarity on certain aspects of the FHPA were defined in subsequent regulations promulgated under the FHPA.

From 1 July 2017 until 30 April 2018, the electricity rate payable by specified consumers is the rate that results in a representative consumer being charged an invoice amount that is 25% less than the rate that would otherwise have been determined by the OEB

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for that period. Of the 25% reduction, 8% comes through a sales tax rebate and 17% comes from a rate reduction on the specified consumers' electricity bills.

The initial reduction runs to 30 April 2018, and rates are expected to then increase at the rate of inflation to 30 April 2019. Permitted increases after that date will be determined by the Ontario government through additional regulations, although the Province has indicated that rate increases will be held to the rate of inflation until 2021. Under the legislation, the difference between the amount invoiced to the specified consumers and the amount payable by the IESO to the generators of the related electricity is accrued in a variance account. The cumulative amount of the variance is projected to grow to a peak of just over $19 billion by 2029.

Under the FHPA, the IESO is responsible for determining the shortfall each month resulting from the rate reduction and adding this amount, together with the costs of financing the shortfall, to the balance of the variance account. Under the FHPA, the IESO has the right to recover the full balance of the variance account from specified consumers, which qualifies the variance account as a regulatory asset. The FHPA expressly permits the transfer of all or a portion of the regulatory asset to a financing entity. Under the Act, such transfer creates an investment asset, which is a current and irrevocable property right and interest, and confers the following rights to the Issuer, as the owner of the investment asset:

» The right and interest to impose, invoice, collect receive and recover a monthly recovery charge from specified consumers, including the right to determine the amount of the recovery charge in accordance with the FHPA;

» The right to receive, collect and recover any amounts of the recovery charge held by LDCs or the IESO;

» The right to enforce the duties and obligations under the FHPA of each LDC and the IESO to collect, receive and remit amounts received by it in respect of the recovery charge, including all collections and the proceeds of any enforcement action undertaken by any LDC pursuant to the FHPA.

The FHPA expressly confirms the ability of a financing entity to secure a funding obligation by granting a valid and perfected security interest over its investment interest under the Personal Property Security Act (Ontario).

The recovery charge and true-up mechanism

Under the Act, the recovery of the investment interest is to begin on 1 May 2021 and continue to 30 April 2047 through a separate charge on the electricity bill of all specified consumers. The recovery charge (referred to in the FHT program documents as the "Clean Energy Adjustment") is a non-bypassable, consumption-based charge, separate and apart from normal base rates. The charge is to be paid by all existing and future specified consumers receiving electricity distribution service in the Ontario market. No customer receiving distribution service can avoid the charge, unless they disconnect from the electricity grid.

The amount of the recovery charge is required to be calculated by Ontario Power Generation Inc. (OPG) in its role as Financial Services Manager for the Issuer in advance of each six month reference period by taking the total of the following amounts:

1. The estimated finance amount for the upcoming reference period, which is defined as the amount payable by the Issuer over the next six months in respect of principal payments (including sinking fund payments for bullet bonds), interest costs, transaction expenses, reserve account deposits and derivative payments.

2. A true-up amount that captures the difference between the finance amounts actually incurred by the financing entities and the amount previously collected from the specified consumers. The true-up amount also includes other anticipated shortfalls, taking into account historical and reasonably foreseeable differences between amounts invoiced and amounts collected due to various factors, including specified consumer defaults and delinquencies.

OPG must then notify the OEB of the total amount recoverable for each upcoming reference period. The OEB must accept this amount and will determine the rates at which specified consumers are to be invoiced to recover that amount by dividing (i) the total recoverable amount in respect of the relevant reference period by (ii) the forecasted electricity consumption provided by the IESO for specified consumers in respect of that period. The LDCs are then required to invoice specified consumers for the recovery charge by applying the rate set by the OEB, which is required to be included as a separate line item on each customer's bill.

Under the FHPA, the LDCs are required to collect the recovery charges as agent of the Issuer, deposit such amounts into a segregated trust account established for the purpose of receiving those amounts and for the benefit of the Issuer, and then remit such amounts to the IESO on a monthly basis. If a LDC does not receive payment in full for an invoice issued to a specified consumer, the LDC must allocate the payment received on a pro rata basis to the recovery charge and the other amounts payable under the particular invoice. It is a deemed condition of their licenses that LDCs comply with their obligations under the FHPA.

Recovery charges will be phased in over time, with the peak recovery periods corresponding with the timing of expected reductions in market electricity costs due to efficiencies gained from the renegotiation of expiring fixed-price generation contracts. The average monthly recovery charge is projected to represent 6.9% of the total bill for an average residential customer over the 26 year collection period and peak at 10% of the total bill. Both are comparable with other utility cost recovery transactions that we rate.

Initial financing of carrying costs

From 1 July 2017 until 30 April 2021, no recovery amounts are permitted to be collected from specified consumers, so during this period and up until 31 July 2021, the IESO is required under the FHPA and related regulations to pay and remit to the Issuer each month any interest owing on the notes plus other expenses of the Issuer.

Immediate funds for that payment will come from the IESO's $2 billion unsecured credit facility established by the Province of Ontario for this purpose, which matures in 2022. Funds advanced by the IESO will be added to the variance account and recorded as part of the regulatory asset, which may then be sold to the Issuer and become part of the Issuer's investment interest.

As backing for its payment obligation, the IESO has granted the Issuer a first-priority security interest in all of its accounts receivable.

The Provincial pledge

The FHPA deems that the investment asset and the related rights to collection are a current and irrevocable property right and interest, and that no action or omission by the OEB or the Province and no regulation under the Act will be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the recovery charge, or to impair or postpone the invoicing, collection or remittance of that recovery charge.

Notwithstanding, there is no Canadian equivalent to the US constitutional protection of property rights under the federal and state constitutions that would make it a violation of law to take an action that could impair the Issuer's right to collect the recovery charges. It is therefore possible that, for political or other reasons, the Province could make a determination that the FHPA or the related regulations should no longer be law in Ontario or that the FHPA or the regulations should be amended to limit or delay the billing of the recovery charge.

Over the medium term, we believe it's unlikely that the Province will take an action that would adversely impact the investment asset or the related rights of collection. However, over the 15-year term of the notes and 30-year term of the FHT program there is greater potential for this to occur, particularly if the recovery charge and/or electricity prices are higher than expected.

The Change of Law Protection Agreement

To protect against the risk that the Province or any other entity controlled by the Province could take a future action that could impair the rights of the noteholders, the Province of Ontario has entered into a Change of Law Protection Agreement with FHT, under which the occurrence of certain "Protection Events" will allow the Issuer and/or a majority of senior noteholders at such time to require that the Province make all debt service payments on the Notes as they become due and payable.

A "Protection Event" means any of the following:

1. The Ontario government repeals (and does not replace on an equivalent basis) or amends the FHPA in whole or part;
2. The government enacts or amends any other statute;
3. The government repeals (and does not replace on an equivalent basis) or amends the regulations made under the Act in whole or part;
4. The government an official of the government or a board or commission appointed by the government makes or amends any regulation; or,

5. There is a change in the organization or structure of the IESO or Ontario's electricity market undertaken at the initiative of the Province or an entity controlled by the Province.

in each case that adversely affects (i) the ability of the Issuer to receive amounts in respect of its investment interest so that it can pay all outstanding debt in accordance with its terms, taking into account any funds in reserve accounts and any credit enhancement and the potential effect of the true-up amount, or (ii) the Change of Law Protection Agreement or any of the agreements under which the debt arises. A Protection Event also includes a court determining that all or a portion of the FHPA or the related regulations are invalid in a way that adversely affects the ability of the Issuer to receive amounts on its investment interest so that it can pay outstanding debt in accordance with its terms.

Once invoked, the terms of the Change of Law Protection Agreement are consistent with the standards set by Moody's methodology "Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts" as outlined in Exhibit 5.

Exhibit 5
Key elements of credit substitution

Key Elements of Credit Substitution	
Mitigation of bankruptcy of Issuer	• The Province assumes all debt service payments for all approved obligations, thereby insulating Investors from the risk of an inability to pay principal and interest as due from the cash flows generated by the securitization's collateral • Amounts advanced each month by the Province for payment under the guarantee are to be deposited into a segregated account (the Protection Account) with an eligible institution in the name of the Indenture Trustee for the benefit of the noteholders • Any debt service payments that are recovered from noteholders due to preference are deemed not to have been paid, and the liability of the Province is not diminished by such payment
Sufficiency of credit support	• The payment obligation for each month is equal to the sum of the required principal payments (including sinking fund payments for bullet bonds), interest costs, Issuer expenses, and derivative payments, plus any true-up amount for prior period deficiencies
Structural provisions that provide for the timely payment of debt service	• Mechanics and timing for submitting a claim for payment and the making of such payment are clearly defined • Duties and actions of the trustee under the Protection Agreement are clearly defined
Bondholders to be paid in full if credit support expiration or termination will result in a change in credit quality	• The Change of Law Protection Agreement will remain in force until the notes are repaid in full
High quality investments that preserve funds held for the payment of debt service	• The Protection Account must be with an eligible institution in the name of the Indenture Trustee for the benefit of the noteholders • An eligible institution must have a minimum unsecured debt rating of A2/P-1 • If at any time the institution holding the Protection Account ceases to be an eligible institution, the funds must be transferred to a new Protection Account with an eligible institution within 30 days
Legally Enforceable Credit Support	• Legal opinions support that the Change of Law Protection Agreement is legal, binding and enforceable against the Province of Ontario

Source: Moody's Investors Service

The service area

The size and geographic diversity of Ontario, and the inclusion in this transaction of approximately five million residential and small commercial customers is considered a key strength. Ontario covers approximately one million square kilometers (416,000 square miles), which is more than twice the size of California, and includes the cities of Toronto, Ottawa, Mississauga and Hamilton. In total, there are more than 5.1 million residential, commercial and industrial customers in Ontario, but the group of "specified consumers" participating in the Fair Hydro program numbers about five million.

Billing and Collection

The IESO will be the servicer under the FHT program, but billing and collection of the recovery charges from the specified consumers, and the remittance of those amounts to the IESO will be the responsibility of the LDCs.

There are currently 65 LDCs in Ontario, of which the majority are municipally owned, and all have a licensed, regulated monopoly for electricity distribution in their geographic service area. In Ontario, LDCs purchase about 80% of electricity sold by the IESO, which is then distributed to residential, commercial and industrial users in the LDC's respective service areas. Large industrial users directly

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purchase the remaining 20% of electricity from the IESO. The three largest LDCs (Hydro One, Alectra & Toronto Hydro) account for about 60% of the 5.1 million LDC customers in Ontario, and the top ten LDCs have almost 80% of the customers.

The OEB has regulatory oversight of LDCs and the authority to issue a distribution license that must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for distribution and other activities, and requirements for rate setting and other legal filings.

LDCs are required to charge their customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to the IESO):

» Commodity Charge – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO to operators of generating stations

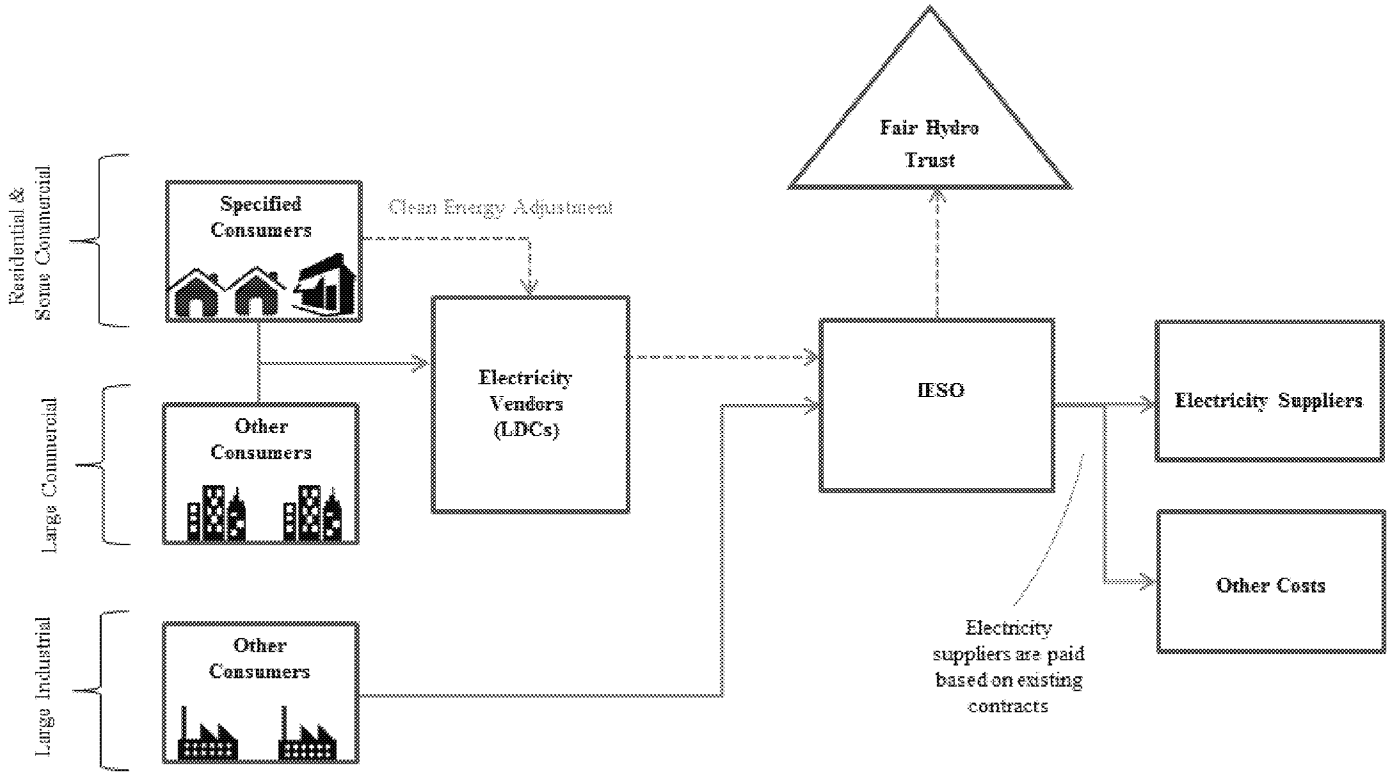
» Transmission Rate – The transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through the IESO to operators of transmission facilities.

» Regulatory Charge – The regulatory charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO.

» Distribution Rate – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, plus an OEB-allowed cost of capital (assuming a deemed equity level of 40%). Distribution rates are regulated by the OEB and include fixed and usage-based components, based on a forecast of LDC's customers and demand.

» Under the terms of the Act and related regulations, the recovery charge (Clean Energy Adjustment) must be added as a separate line item on each invoice issued to specified consumers.

Exhibit 6
FHT program flow of funds



Source: Fair Hydro Trust Confidential Shelf Offering Memorandum

LDCs are rate-regulated, and the OEB approves distribution rates charged by LDCs using a cost of service model, through which the OEB evaluates the cost base of the LDC and, providing those costs are prudently incurred, sets rates to allow for a recovery of those costs plus a fixed rate of return on equity (assuming a deemed equity level of 40%).

LDCs under the OEB's Retail Settlement and Distribution System Code may obtain a security deposit or letter of credit from their customers to mitigate risk of payment default. LDCs are also able to include an amount for accounts receivable write-offs within operating expenses for rate setting purposes. They can also apply for any extraordinary write-offs as a variance account adjustment to be considered by the OEB.

The OEB closely tracks the performance of each LDC on a number of measures and publishes annual scorecards for each LDC, as well as a consolidated industry comparison. Metrics tracked include service quality, operational effectiveness, public policy responsiveness and financial performance. The OEB also tracks and publishes financial data for each LDC, including the levels of arrears and write-offs, and aggregates the data so it can be tracked on a system-wide basis, as Exhibit 7 shows.

Exhibit 7
Ontario LDC industry metrics

	2013	2014	2015	2016
LDC Revenues and Net Income				
Total LDC System Revenue (CAD millions)	15,484	16,480	17,267	18,894
Total Distribution Revenue (CAD millions)	3,216	3,344	3,296	3,433
Total Net Income (CAD millions)	625	555	672	722
Return on Shareholders' Equity	9.5%	7.9%	9.0%	9.3%
Aggregate LDC 30+ Day Arrears				
Outstanding Receivables (CAD millions at 12/31)	3,355	3,018	2,922	3,216
30+ Day Arrears (CAD millions at 12/31)	97	142	129	135
Arrears as a % of Annual Revenue	0.6%	0.9%	0.7%	0.7%
Arrears as a % of Year End Receivables	2.9%	4.7%	4.4%	4.2%
Aggregate LDC Net Charge-offs				
Net Charge-Offs (CAD millions)	1.1	2.1	3.6	6.4
Net Charge-Offs as a % of Annual Revenue	0.01%	0.01%	0.02%	0.03%

Sources: OEB 2016 Yearbook of Electricity Distributors, published 17 August 2017, Moody's Investors Service

Starting in May 2021, each LDC will be required under the terms of the FHPA and corresponding regulations to add a line item to the bill of each specified consumer for the usage-based recovery charge, based on the rate set by the OEB in advance of each six month period. The legislation mandates that the recovery charge shown on an invoice issued to a specified consumer is determinative of the amount of the consumer's indebtedness, and is irrevocable on invoicing and may not be set off or bypassed.

Recovery charges received by an LDC are required to be immediately segregated into an eligible account (minimum bank rating of A2/P-1), which must be explicitly designated as a trust account for the benefit of Fair Hydro Trust. Any partial payments of invoices by a specified consumer are required to be split between the recovery charge and the electricity charge for that invoice period.

To address commingling risk, the IESO will provide a letter of credit (L/C) or performance guarantee to FHT in an amount equal to 50% of 45 days of anticipated recovery charge collections by each LDC that is unrated by Moody's or is rated non-investment grade. Moody's currently only rates one LDC, Hydro One (A3), which is the largest LDC in Ontario with approximately 25% of the total customers.

The billing and settlement process for the remittance to the IESO of the regulatory charges held by the LDCs will leverage the existing infrastructure in place for the IESO's billing and collection of monthly electricity purchases from those same LDCs.

Since 2002, LDCs and industrial purchasers of electricity in the Ontario market have been required to adhere to specific market rules under the Ontario Electricity Act. The rules are in respect of amounts owing to the IESO for the LDCs purchase of electricity, and govern the timing of payments, collateral posting, and margin calls.

On the 10th business day of each month, the IESO sends out an invoice to every LDC for the amount owing for electricity purchased in the previous month. Those invoices are required to be paid in full on the 12th business day, and then the IESO is required to pay the generators and transmitters of electricity in full on the 14th business day. As part of this process, the IESO conducts daily monitoring of all LDC's electricity market financial exposures. Since the opening of the current market in 2002, virtually all amounts due from LDCs have been collected in full on the 12th business day, and an LDC has never been in default of their payment obligations.

The monthly remittances of recovery charges from the LDCs are required to be immediately segregated by the IESO into a trust account for the benefit of FHT, before being transferred to FHT on each monthly settlement date.

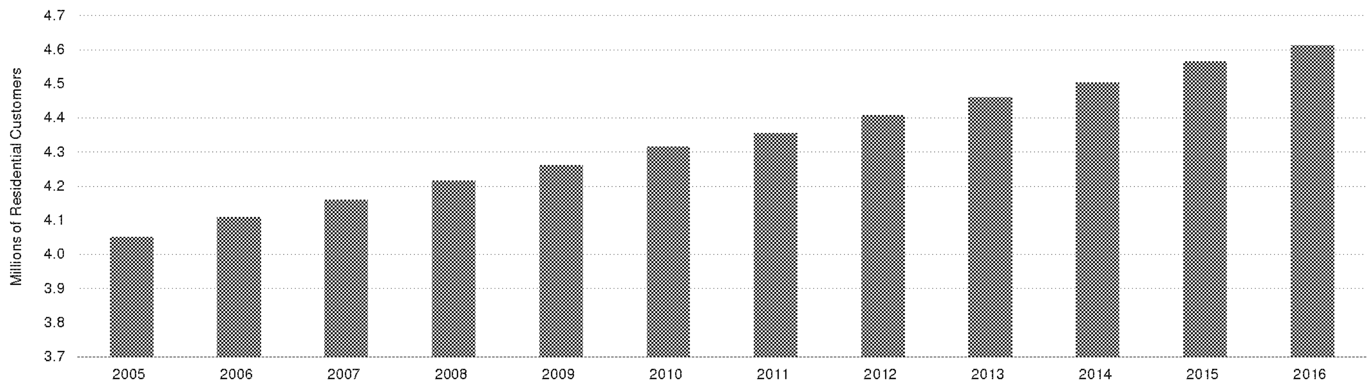
Asset analysis

Strong service area

This transaction benefits from the size and diversity of the ratepayer base within Ontario and the projected population growth and economic stability of the Province. Ontario is the largest province in Canada, with a growing population of 14 million, which is up 5.4% over the past five years, and represents 38.7% of the total Canadian population. Toronto is Ontario's largest city and ranks as the fourth largest city in North America behind Mexico City, New York and Los Angeles. Since 2009, Ontario's unemployment rate has been trending down, and was 5.5% at the end of 2017, versus 5.7% for all of Canada.

Over the years 2005-2016, the number of residential electricity customers in Ontario has grown by 14% to 4.6 million in 2016 from just over 4 million in 2005.

Exhibit 8
Residential electricity customers in Ontario



Source: OEB Yearbook of Electricity Distributors - 2005-2016

Remote risk of severe ratepayer base declines

The Series 2018-1 bonds are exposed to the risk of declines in the ratepayer base in the Province. However, declines in the ratepayer base dramatic enough to impact the rating of the bonds are unlikely given the size, projected population growth and economic stability of the province's ratepayer base. We view the risks of ratepayer base declines due to any of the following factors to be low.

Self-generation

We view the potential for increased use of self-generation as a minor headwind to the transaction. Self-generation, which primarily includes solar and wind, has the potential to reduce energy consumption and increase the burden of the recovery charges on other non-self-generating ratepayers. Self-generators that receive no transmission or distribution service in Ontario are not liable for payment of the recovery charge, and neither the FHPA nor the related regulations provide for exit fees to be charged to any specified consumers that might leave the grid to self-generate, although such charges are not precluded.

Currently, self-generation is not an efficient option for the residential and small commercial customers that make up the specified consumer category for this program. Costs are relatively high, Ontario's weather is not conducive, and there are only emerging options for storage. However, given the term of this financing program, technological developments will likely allow greater numbers of specified consumers to reduce or even altogether avoid the payment of recovery charges through on-site generation, including where coupled with on-site storage capacity.

Storm damage

The physical size of Ontario and its northern location reduce the potential for a weather event to have a significant impact on transmission, distribution or consumption, such that there would be a significant impact on recovery charge collections. It's unlikely that Ontario will be impacted by hurricanes, tropical storms or wind storms. Snow or ice damage may occur in winter months, but those tend to be localized and less likely in the more heavily populated southern sections of the Province.

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Forecasting electricity consumption

The recovery charges will be assessed based on forecast usage by the specified consumers. The amount of the charge collected in any period will depend on actual electricity consumption, the amount billed and remitted, and write-offs. If the servicer inaccurately forecasts electricity consumption or underestimates customer delinquency or write-offs when setting or adjusting the recovery charges, there could be a shortfall or material delay in collections.

The mechanism for calculating the recovery charge in the FHT program will minimize forecast error, since the amount of the charge is required to be recalculated every six months for the next following six month period. As previously described, the charge will be based on the amount required by FHT to meet its debt service obligations and pay trust expenses over that six month period, plus true-up recoveries for any prior period deficiencies, which will then be divided by forecast energy consumption to arrive at a rate per kWh.

Forecast variance

For there to be insufficient funds for the Issuer to pay ultimate principal and timely interest on the notes, there would need to be an unexpected, persistent and extensive drop in electricity consumption within a six month period. If that were to occur, the legislation allows for interim true-up adjustments as required prior to the end of the six month period.

Cash flow analysis

We examined the cash flows that the recovery charges will generate under various scenarios. In light of the strength of the ratepayer base, the purpose was primarily to see how high the charges can go as a percentage of a typical specified consumer's bill and also to illustrate how the recovery charges behave under various stress scenarios of customer demand. Our rating is primarily based on qualitative analysis of the political, legal and regulatory aspects of the FHT program, and the strength of the ratepayer base. However, we run these stress scenarios to confirm that the level of the recovery charges is consistent with other comparable transactions.

The concern is that the recovery charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. That becomes more likely as recovery charges rise. Consequently, our economic analysis focuses on the size of the cost recovery charge, both in absolute terms and as a percentage of the customer's energy bill.

We looked at three scenarios, assuming the projected issuance of the full $19 billion in debt:

Scenario description and projected output

Base Scenario

1. Electricity consumption in accordance with the IESO's projections, which increases by an average compounded rate of 0.2% per year from 2018-2047, with specified consumers representing 50% of total consumption
2. Implied net charge-off rate of 0.28%
3. Collection curve projects 96.5% of collections within 30 days and 98% of collections within five months
4. There is no servicing fee so long as the servicer remains the IESO. While a back-up servicer has not been retained, the Issuer can increase servicing fees to 0.60% to attract one if needed

Stress Scenario 1

1. Electricity consumption decreases linearly by 5% every year until it reaches 50% of the projected consumption for all specified consumers
2. Annual net charge-offs are the same as in base case
3. Collection curve is the same as in base case
4. Loss of 100% of the collections from the peak consumption month and 50% of the collections from the second highest consumption month each year
5. Replacement servicing fee of 0.60% per year of the initial bond balance with other expenses the same as in the base case

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Stress Scenario 2

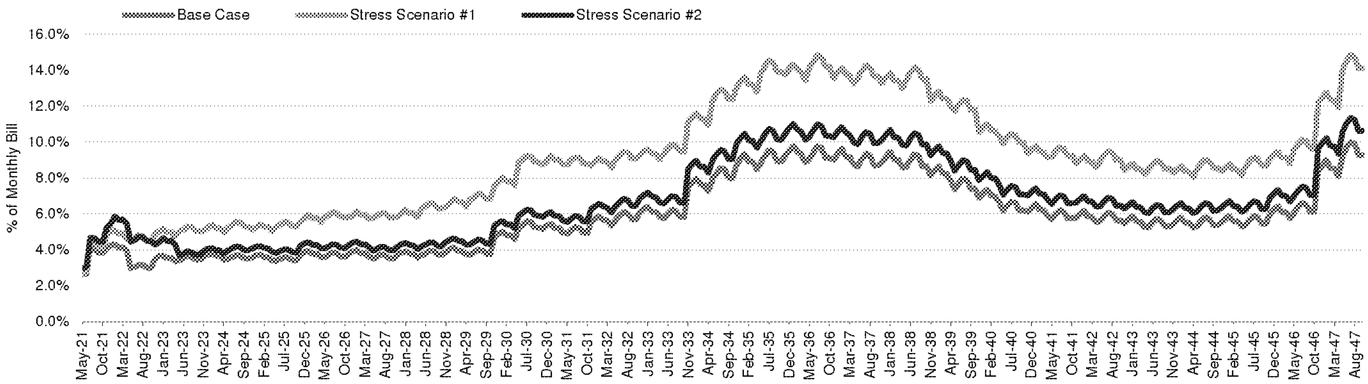
1. Electricity consumption is reduced by 25% permanently against the first year base case projection
2. Annual net charge-offs the same as in base case
3. Collection curve is the same as in base case
4. Servicing fee and all other fees the same as in base case

For all of the scenarios, the bonds are fully paid by their legal final maturity dates.

Exhibit 9 shows the projected recovery charge as a percentage of an average 750 kWh residential customer's total bill, and Exhibit 10 shows the projected dollar amount of recovery charges for customers per 750 kWh over the life of the program. The periodic variance in the charges under the stress scenarios is due to the semi-annual rate resets and true-ups.

Exhibit 9

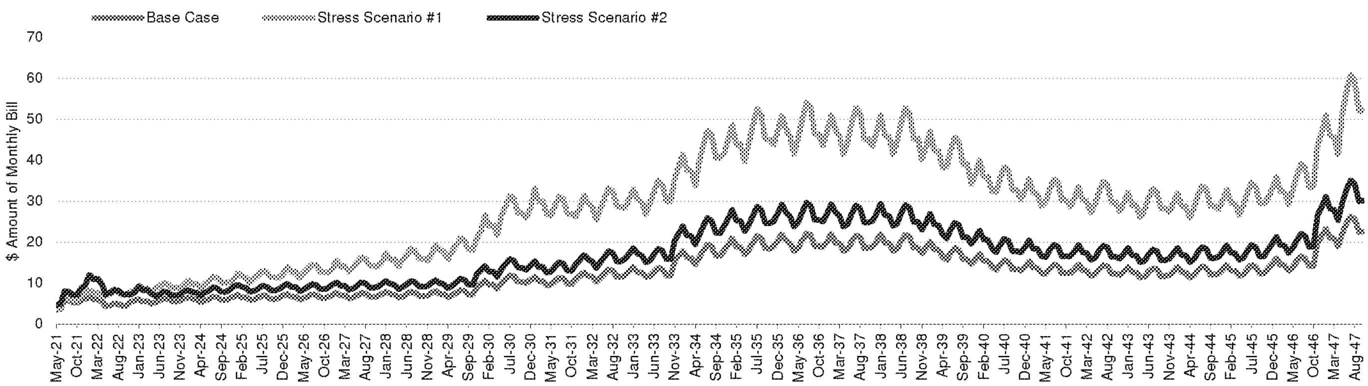
Projected recovery charge as a percentage of a customer's monthly total bill



Source: Ontario Power Generation, Moody's Investors Service

Exhibit 10

Projected recovery charge on a customer's monthly bill ($ per 750 kWh)



Source: Ontario Power Generation, Moody's Investors Service

Comparables

As Exhibit 11 shows, stress scenario 1 is the most stressful and results in a peak recovery charge equal to about 14.8% of a 750 kWh per month customer's bill. This is moderate compared to other utility cost recovery deals rated by Moody's.

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Exhibit 11

Maximum recovery charge comparison (% of a customer's monthly bill)

Deal Name	Base Case	Stress Scenario #1	Stress Scenario #2
Fair Hydro Trust*	10.0%	14.8%	11.4%
UDSA 2017**	12.4%	24.5%	17.5%
UDSA 2016B**	11.5%	23.8%	15.3%
UDSA 2016A**	7.2%	16.0%	10.4%
DEF 2016-1**	2.7%	6.9%	4.7%
UDSA 2015**	7.0%	12.3%	7.9%

* Based on average 750 kWh customer
** Based on average 1,000 kWh customer
Source: Moody's Investors Service

Securitization structure

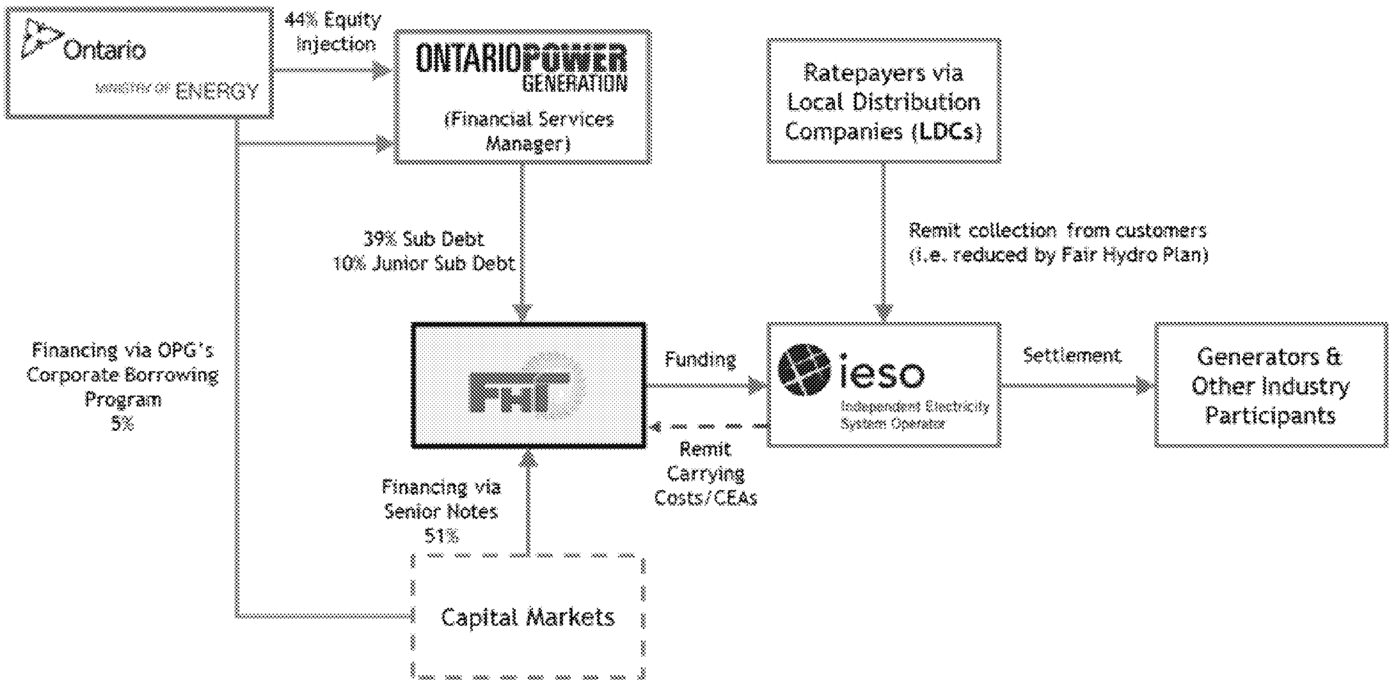
On an ongoing basis, the IESO will sell an investment interest in the regulatory asset to the Issuer pursuant to a sale agreement between the Issuer and the IESO. The IESO will service the investment asset pursuant to a servicing agreement between the Issuer and the IESO.

Structural diagram

Exhibit 12 illustrates the relationships between the transaction parties and noteholders.

Exhibit 12

Securitization structure diagram



Source: Fair Hydro Trust Confidential Shelf Offering Memorandum

1. Each month, the IESO will determine the shortfall resulting from the rate reduction mandated by the FHPA and record the amount as a regulatory asset.
2. The IESO may transfer a specified portion of the regulatory asset to the Issuer pursuant to a master transfer and servicing agreement.

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3. Upon such transfer, the Issuer will acquire an investment interest in the investment asset, which is a current and irrevocable property right consisting of the right to impose, invoice, collect and receive the recovery charges from specified consumers in accordance with the FHPA.
4. The purchase of the investment interest by FHT is to be initially funded by senior notes (51%), subordinate notes (39%) and junior subordinate notes (10%), although there is the potential for senior notes to comprise up to 65% of the capital structure.
5. The Issuer has contracted with the IESO as servicer to, among other things, collect recovery charges from LDCs, deposit such amounts promptly into a designated account in trust for FHT, and remitting such amounts to FHT on a monthly basis.
6. LDCs are also required to collect the recovery charge, as agent of the Issuer, deposit such amounts into a segregated account established for the purpose of receiving those amounts, hold such amounts in trust for the benefit of FHT until deposited with the IESO, and remit such amounts to the IESO for the benefit of the Issuer.
7. The FHPA and the related regulations require LDCs to invoice specified consumers for the recovery charge commencing 1 May 2021 and continuing to 30 April 2047, as determined by applying the rate set by the OEB, and to include such charge as a separate line item on each invoice sent to specified consumers.

Detailed description of the structure

Capital structure and subordination

The purchase of the 2018-1 investment interest by FHT is to be funded by senior notes (51%), subordinate notes (39%) and junior subordinate notes (10%).

On an ongoing basis, the senior notes will consist of:

(i) A 2017-1 warehouse senior note

» Issued to fund the monthly purchase of the investment interest by FHT

» Amount is revolving subject to a purchase limit, and will be drawn down to fund new monthly purchases and repaid periodically through the issuance of term notes

(ii) The 2018-1 and subsequent series of senior notes issued to ABS investors

Subordinated notes and junior subordinated notes will be issued to OPG, which in turn will fund the notes through an equity injection by the Province equal to 90% of the total subordinated note balance, and direct funding equal to 10%. Subordinated and junior subordinated notes will consist of:

(i) A 2017-1 warehouse subordinated note and 2017-1 warehouse junior subordinated note

» Amount is revolving subject to a purchase limit, and will be drawn down to fund new monthly purchases and repaid periodically through the issuance of term notes

(ii) The 2018-1 and subsequent series of subordinated and junior subordinated notes

Credit enhancement

Credit enhancement for the notes will be provided by the semi-annual reset of the recovery charge, which incorporates the true-up mechanism, as well as subordination and cash reserves as Exhibit 13 shows.

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Exhibit 13
Cash reserve summary

FHT Cash Reserves	
IESO Cash Reserve Amount	• **Reserve to provide funds to cover the transition between the the start of the recovery charge collections in May 2021 and the termination of the IESO's obligation to pay all of FHT's debt carrying costs through to July 2021** • **Equal to** 0.50% of the aggregate outstanding principal amount of all notes outstanding as of April 30, 2021, plus three months of expected interest costs for May, June and July 2021 • **After November** 30, 2021 equals the positive difference between 0.50% of outstanding notes and the amount on deposit in the Program Cash Reserve Account
Program Cash Reserve Account	• **General cash reserve equal to** 0.50% of outstanding notes on each monthly payment date, with funding starting in June 2021

Source: Fair Hydro Trust Confidential Shelf Offering Memorandum

Cash commingling

Each LDC is required to immediately deposit all recovery charge collections into a segregated account containing a designation that the deposited amounts are held in trust for the Issuer. The LDCs are required to remit those collections to the IESO on each monthly payment date. Each month, the IESO is required to reconcile the amounts received from each LDC with the amounts shown on the monthly reporting provided by each LDC.

As additional protection for commingling risk on the part of the LDCs, the IESO is required to provide the Issuer with a performance guarantee or letter of credit in an amount equal to 50% of 45 days of estimated recovery charge collections from each LDC that is either unrated by Moody's or is rated less than investment grade. Moody's currently only rates one LDC (Hydro One: A3), which is the largest LDC in Ontario with approximately 25% of the total customers.

Upon receipt of the recovery charges from the LDCs, the IESO is required to deposit those funds in a segregated account containing a designation that the deposited amounts are held in trust for the Issuer, before remitting the funds each month to the Issuer's collections account. If the rating of the IESO drops below Baa2, it must remit funds to the Issuer's collections account within two business days of receipt.

Payment priority

On each monthly payment date prior to an event of default, the indenture trustee will pay all amounts on deposit in the collection account in the following order of priority:

1. Payment of any taxes for which a governmental authority is given priority;
2. Payment to the indenture trustee and issuer trustee in respect of fees, expenses and reimbursement amounts owing, each not to exceed (x) $150,000 multiplied by (y) the number of series of senior funding obligations then outstanding, divided by (z) 12;
3. Transfer of interest then owing on senior notes to the interest accumulation account, and payments to derivative counterparties on a pro rata basis, excluding derivative termination payments
4. Transfer of interest then owing on subordinated notes to the interest accumulation account
5. Transfer of interest then owing on junior subordinated notes to the interest accumulation account
6. Transfer to the principal accumulation account the warehouse debt principal allocation amount
7. Transfer on a pari passu basis (i) to the principal accumulation account the senior debt principal allocation amount for such period, and (ii) to derivative counterparties on a pro rata basis, any termination payment where the derivative counterparty is not the defaulting party or sole affected party
8. To debtholders on a pro rata basis all fees and other amounts (other than principal) then due and payable on the senior notes
9. To the financial services manager all fees, expenses and reimbursement amounts owing
10. To the principal accumulation account the subordinated debt principal accumulation amount for such period

11. To debtholders on a pro rata basis all fees and other amounts (other than principal) then due and payable on the subordinated notes
12. To the principal accumulation account the junior subordinated debt principal allocation amount for such period
13. To the program cash reserve account, the program cash reserve required amount
14. Replenishment of any amounts drawn from any other senior series reserve account
15. Replenishment of any amounts drawn from any other subordinated series reserve account
16. To debtholders on a pro rata basis all fees and other amounts (other than principal) then due and payable on the junior subordinated funding obligations
17. Replenishment of any amounts drawn from any other junior subordinate series reserve account
18. To derivative counterparties, any termination payment where the derivative counterparty is the defaulting party or the sole affected party
19. To the issuer trustee for the account of the beneficiaries of the Issuer
20. To the financial services manager for any indemnity amounts owing
21. Payment on a pari passu basis to (i) the indenture trustee and issuer trustee in respect of fees, expenses and reimbursement amounts owing and not previously paid, (ii) to the payment of all taxes due and not previously paid, and (iii) payments to all other specified creditors of the Issuer not previously referred to
22. Any amounts remaining are to be (a) held in the collection account for distribution in the same order of priority on the next succeeding payment date, or (b) after the final Issuer payment obligation is paid in full, to the Issuer

On each interest payment date the amounts on deposit in the interest accumulation account will be used to pay interest then due to the noteholders in order of priority. On each principal payment date, the amounts on deposit in the principal accumulation account will be used to pay principal amounts then due in order of priority. Principal payments on warehouse obligations will be in priority to payments on note obligations.

Events of default

An event of default with respect to the bonds is defined in the indenture as any one of the following events:

1. A default of more than five days in the payment when due of any senior interest (and when all senior debt is repaid, a default of more than five days in the payment when due of any subordinate interest, and when all subordinate debt is repaid a default of more than five days in the payment when due of any junior subordinate interest)
2. A default in the payment of principal with respect to any senior series by the principal payment default date for that series (and when all senior debt is repaid, a default in the payment of principal with respect to any subordinate series, and when all subordinate debt is repaid a default in the payment of principal with respect to any junior subordinate series)
3. Any representation or warranty made by the Issuer in the indenture proves to be incorrect in any material respect as of the time made, and is not remedied within 60 days, and at least 25% of the affected creditors have provided a notice of default
4. A default in the observance or performance of any covenants or agreements made by the Issuer in the indenture, which continues and is not remedied within 60 days, and at least 25% of the affected creditors have provided a notice of default
5. The Issuer fails to maintain its existence or its status as a financing entity under the legislation, or an insolvency event occurs with respect to the Issuer
6. The Change of Law Protection Agreement ceases to be in full force and effect against the Province, or the validity of the agreement shall be disaffirmed by the Province

7. An acceleration event has occurred under any senior series funding agreement (and when all senior debt is repaid, an acceleration event under any subordinate series payment obligation, and when all subordinate debt is repaid an acceleration event with respect to any junior subordinate series) and at least 25% of the affected creditors have provided a notice of default
8. A default by the Issuer in the performance of its obligations to provide detailed payment instructions in advance of each payment date, and such breach continues for three business days
9. Amounts withdrawn from the program cash reserve account exceed the sum of (a) 0.50% of the largest outstanding principal amount of all senior, subordinated and junior subordinated funding obligations, plus (b) the sum of all amounts previously deposited to the program cash reserve account, plus (c) net earnings in the program cash reserve account
10. A servicer default shall occur

Remedies
If an event of default (other than #5 or #6 above) occurs, the indenture trustee or holders of a majority in principal amount of the senior-most notes then outstanding may declare the unpaid principal of the bonds and all accrued and unpaid interest thereon to be immediately due and payable. However, payment of principal upon an acceleration of the bonds will be made as funds become available. Foreclosure of the indenture trustee's lien on the investment assets might not be practical.

If an event of default as specified in #5 or #6 above has occurred, the Issuer's funding obligations will become immediately due and payable without notice or demand. If an event of default occurs and remains unremedied, and payment has been deemed to be due and payable, the indenture trustee may proceed to realize upon the security interest and to enforce the rights of the indenture trustee and the secured creditors by (i) application to any court for an order of sequestration and payment of amounts in respect of recovery charges collected by the trust (ii) possession of the collateral (iii) an appointment of a receiver with respect to the collateral, (iv) proceedings in a court for the appointment of a receiver or for sale of the collateral or any part thereof, or (v) exercise of any of the rights of the Issuer under any of the program agreements, including the right to replace the financial services manager or servicer, or (vi) any other action or remedy permitted under the trust indenture or by applicable law.

Issuance of additional notes
As authorized by the legislation and the Issuer's program documents, FHT is expected to continue to issue new series of notes to finance the build-up of its investment interest in the regulatory asset. Each new series of notes will share in the aggregate investment interest of the Issuer and the recovery charges for the purpose of paying debt service charges on all series. Any new series of notes could include terms and provisions that would be unique to that particular series of notes. However, the Issuer may not issue additional series of notes unless the rating agency condition for the existing rated notes has been satisfied.

Asset transfer, true sale and bankruptcy remoteness
Under the FHPA, the IESO has the right to recover the full balance of the variance account from specified consumers, which qualifies the balance of the variance account as a regulatory asset. The FHPA expressly permits the transfer of all or a portion of the regulatory asset to a financing entity. Under the FHPA, such transfer:

» Constitutes a valid and enforceable absolute sale of the corresponding investment interest to the financing entity

» Shall be treated for all purposes as an absolute sale of the IESO's right to recover the corresponding amount in the variance account and not merely as a security interest

» Shall be perfected, vested, valid and binding as against the IESO and all other persons who have claims of any kind against the IESO

The FHPA expressly confirms the ability of a financing entity to secure a funding obligation by granting a valid and perfected security interest over its investment interest under the Ontario Personal Property Security Act.

The Declaration of Trust for the creation of FHT does not permit the Issuer to engage in any activities not directly related to purchasing and owning the investment interest in the regulatory asset, pledging such interest to the indenture trustee for the purpose of securing funding obligations, and issuing and redeeming such funding obligations. The list of permitted activities set forth in the Declaration of

Trust may not be altered, amended or repealed without the satisfaction of the rating agency condition, and, if materially adverse to the noteholders, the approval of all noteholders.

Under the Trust Indenture and 2018-1 Supplemental Indenture, creditors acknowledge that they only have rights against the collateral securing their obligations and that all payments are limited by the allocation and payment provisions of those documents. Creditors also agree to a non-petition clause, so it is unlikely that a proceeding would be brought against FHT under Canadian bankruptcy or insolvency law.

Seller and Servicer

The IESO will be the seller of the regulatory asset and will service the Issuer's investment interests on behalf of the Issuer. The IESO is a not-for-profit corporation established in 1998 by the Electricity Act of Ontario, and governed by an independent board whose Chair and Directors are appointed by the Province of Ontario.

The IESO oversees Ontario's electricity system, which has 36,130 MW of installed generation. Responsibilities include direction of the operation of the transmission system including providing transmission-related information to all market participants, maintaining the reliability of the grid, participating in the development of energy policies, establishing and enforcing criteria and standards related to the reliability of the integrated power system, engaging in activities related to electricity supply and capacity procurement and energy conservation, forecasting electricity demand and the adequacy and reliability of electricity resources for Ontario, promoting cleaner energy sources for fuel diversity, assisting the OEB by facilitating stability in rates for certain type of customers, and managing the Ontario Electricity Support Program.

On 1 January 2015, the Ontario Power Authority (OPA) and the IESO amalgamated and continued to operate as the IESO pursuant to an Act of Provincial parliament passed in July 2014. The Act provides that for all intents and purposes the IESO will fulfill all of the same roles and functions as its predecessor organizations. The amended Act stipulates effective separation of functions between the IESO's market operations and its procurement and contract management activities. The pre-amalgamated OPA managed about 22,500 MW of capacity as an off-taker under long term power purchase agreements.

Administrator

The Trust, as a financing entity under the FHPA, was established at the initiative of OPG as Financial Services Manager. OPG has entered into a management agreement with the Issuer under which the Issuer has delegated to OPG all of the powers and duties of managing the Issuer, including determining whether to incur new funding obligations to acquire an investment interest or refinance existing funding obligations, negotiating and entering into program agreements, maintaining accounts and banking records, preparing any offering documents and preparing financial statements and tax filings on behalf of the Issuer. In addition, OPG will be responsible each six months for determining the aggregate amount of the recovery charge for the following six month period, inclusive of any true-up amount, and notifying the OEB of such amount. Subject to OEB approval, OPG is also entitled to charge the Issuer a fee to earn a return and to recover costs and expenditures incurred by OPG in relation to the establishment, management and administration of the Issuer and its investment interest.

OPG is a corporation formed under the Business Corporation Act (Ontario), whose sole shareholder is the Province of Ontario, and is Ontario's largest generator of electricity. OPG currently operates two nuclear generating stations, 66 hydroelectric generating stations, three thermal generating stations, and one wind power turbine.

Securitization structure analysis

The key structural feature of this transaction is the semi-annual rate setting and true-up mechanism (or more frequent, if needed). Our rating is highly dependent on the extent to which the mechanism adjusts the charges to correct for past shortfalls or forecasted future shortfalls. The effectiveness of those rate changes in raising funds depends, in turn, on how easily customers can escape the charges and how sensitive electricity usage is to increases in the utility charges. Therefore, our analysis of the rate setting and true-up mechanism goes together with our analysis of how bypassable the cost recovery charges are and how easily customers can cut back on electricity usage.

In this transaction, the strong rate setting and true-up mechanism combined with non-bypassable charges mitigates the need for credit enhancement in the form of alternative sources of funds. The required cash reserve accounts provide sufficient funds to offset the

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typical variance in collections versus projections in order to meet the projected principal accumulation schedule between the semi-annual rate setting and true-ups.

Methodology and monitoring

The principal methodology used in this rating was Moody's Approach to Rating Securities Backed by Utility Cost Recovery Charges published in June 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Other methodologies and factors that may have been considered in the process of rating this issue, including Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts, can also be found in the Rating Methodologies sub-directory on www.moodys.com.

In monitoring this transaction, we apply the key components of our methodology. More specifically, we analyze whether note balances are in line with the scheduled principal accumulation, which indicates the extent to which payments have been in line with our original expectations.

We review the periodic information received and look at whether there has been a draw on the reserve accounts. This data point provides further clues as to the steadiness of the cash flows and accuracy of true-up adjustments.

In addition, we analyze the factors that determine the future strength of the transaction. For example, we monitor any legal or political developments that could indicate an increased risk of changes in the legislation that could impair future cash flows to the transactions. Such risk may materialize, for example, in case of continued high financial imbalances in the system that may lead the system deficit to be viewed as unsustainable over the long-term.

We also follow the economic health of the Province of Ontario and the potential for changes in the size and composition of the ratepayer base. Furthermore, we monitor the rating of the IESO (as an indicator of its financial condition) to track the risk, typically quite small, that a bankruptcy could lead to disruption in billing and collections and in the remittance of payments to the noteholders.

Thus changes in our expectations and other analytical components could have an impact on the rating of the securities and may result in a reassessment of the rating.

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