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Memorandum

To: THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS of the Independent Electricity System Operator

From: Anthony Martinello, Director Treasury and Pension Operations

Date: June 13, 2017

Re: Treasury Policy

This memo outlines the following:

1. Recommendation for changes to the IESO's Treasury Policy; and
2. To provide the IESO Treasury Policy to the Minister of Finance;

Treasury Policy

Ontario regulation (O.Reg. 280/ 14; 162/ 15) prescribes limits and requirements for the IESO regarding it's treasury activities including permitted investments and debt.

The regulation requires the IESO to adopt a statement setting out the IESO's investment, borrowing, and financial management policies and procedures (the "Treasury Policy").

The Treasury Policy must be reviewed on an annual basis, and any changes must approved by the IESO Board of Directors and the Minister of Finance.

The current Treasury Policy (version dated June-24-2015) was approved by the IESO Board of Directors and the Hon. Charles Sousa, Minister of Finance.

Annual Review:

IESO management has reviewed the current IESO Treasury Policy (version dated June-24-2015) and recommends that changes be made to the policy in order to update for the following:

- Permit borrowings for the Fair Hydro program;
- Increase investment limits for Canadian Schedule 1 banks;

Changes – Fair Hydro borrowing:

The IESO will be responsible to ensure that the Ontario Fair Hydro program's has sufficient liquidity. In general, the Fair Hydro program requires that the IESO receive payments from LDCs which are less than those settled to generators/ counterparties. This shortfall will need to be funded by the IESO via a valid credit facility.

Changes – Increase in Limits
An increase from $420 million to $500 million per counterparty in investment limits for Canadian Schedule 1 banks is recommended by IESO Management. The rational for this increase includes the following:

- The market price of electricity has generally increased between 2014 to 2016 by approximately 16%-19%. Therefore, the IESO is managing higher cash-flows than in the past;
- Over the past few years, the availability of short-term (less than 30 days investment) products such as Treasury Bills and Term Deposits has been irregular and not reliable for the IESO. Also, the IESO generally deals in large amounts which may at times overwhelm some banks whom choose to lower their interest rates to accommodate the IESO but truly do not need the IESO's cash balances. Therefore, the IESO has either little to no products to invest or has to accept a very low interest yield with no resulting lower risk for the IESO; and
- The IESO's Transmission Rights balances have in general remained higher than $100 million on average over the last few years despite a target of $20 million. This has resulted in the IESO managing higher cash-flows.

The resulting increase in the investment limit will permit the IESO to maintain efficiency with cash flows which helps reduce the IESO's annual administration fee charged to market participants.

Review of Changes in the Policy
Attached for your review is the current IESO Treasury Policy with black-lined changes.

Recommendation:

> **The Audit Committee to recommend approval of the attached revised Treasury Policy and Schedule A, and to submit the same policy to the Minister of Finance for approval.**

Sincerely,

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Anthony Martinello
Director Treasury and Pension Operations