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Office of the Minister

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JUN 29 2017

Anthony Martinello
Director, Treasury and Pension Operations
Independent Electricity System Operator
1600-120 Adelaide Street West
Toronto, Ontario
M5H 1T1

Re: IESO Treasury Policy (version June 14, 2017)

Dear Mr. Martinello,

I am writing in regards to your request for approval of the IESO's Treasury Policy approved by its Board of Directors on June 14, 2017.

I am pleased to provide my approval of this policy.

Please continue to work with staff from the Ontario Financing Authority on any future issues pertaining to the IESO Treasury Policy.

Sincerely,

Charles Sousa
Minister

IESO **Statement of Investment, Borrowing and Financial Management Policies and Procedures ("Treasury Policy")**			
Office of Primary Responsibility	Treasury, Corporate Services	Policy #	**Treasury 01**
Subject.:	**IESO TREASURY POLICY**	Page:	1 of 4, and Schedule A
Approved by	Board of Directors	Effective	June 24, 2015
		Revised	June 14, 2017~~n / a~~

1. DEFINITIONS

CFO: means the IESO's Chief Financial Officer

IESO: means the Independent Electricity System Operator.

Treasury Policy: means this policy document, and means the Statement of Investment, Borrowing and Financial Management Policies and Procedures as referenced in Ontario Regulation 280 / 14.

2. PURPOSE:

The purpose of this Treasury Policy is as follows:

a) To adopt a policy for the sound and efficient management of the IESO's borrowing, investment, foreign exchange, financial affairs, and other treasury related activities;

b) To make investments when the investments are advisable for the sound and efficient management of the IESO's financial affairs;

c) To adhere to Ontario Regulation 280 / 14 made under the Electricity Act, 1998, as amended;

3. SCOPE

This Treasury Policy applies to all treasury related activities of the IESO (corporation) and the IESO's administered markets.

This Treasury Policy must be reviewed on an annual basis.

4. OUT OF SCOPE

This Treasury Policy does not apply to any activities pertaining to the IESO's pension plans[1].

Nothing in this Treasury Policy restricts the IESO's authority to enter into contracts referred to in section 25.32 or 25.35 of the Electricity Act.

5. RESPONSIBILITIES

5.01 **Director~~Manager~~, Treasury and Pension Operations (or equivalent)** is responsible for:

- Manage all day-to-day treasury activities and ensure adherence to this Treasury Policy;
- To establish documented treasury processes and procedures for internal control purposes;
- As necessary, recommend to the CFO any appropriate changes to Treasury Policy;
- Provide the CFO on a timely basis with any policy violations, concerns, or issues;
- To provide a report on the IESO's treasury activities to the CFO and IESO Board of Directors at least each quarter.

5.02 **Chief Financial Officer** is responsible for:

- Establish prudent and effective treasury and risk management practices;
- To manage the relationships between government and the IESO regarding all treasury matters;
- Reviewing any proposed changes to the Treasury Policy before submission to the IESO Board of Directors;

[1] Includes the IESO Registered Pension Plan and IESO Supplementary Employee Retirement Plan (SERP reserve).

5.03 **IESO Board of Directors** are responsible for:

- To adopt a Treasury Policy setting out policies for the IESO's borrowing, investment, foreign exchange, financial affairs, and other treasury related activities;
- To ensure any proposed change to the Treasury Policy is sent to the Minister of Finance for approval

6. PERMITTED ACTIVITIES

6.1 Permitted Borrowings:

a) All new borrowing facilities must be approved by the IESO Board of Directors.

b) The CFO will renew the annual SERP's letter of credit posted with the SERP trustee.

c) All borrowing facilities must be denominated in Canadian dollars.

d) The IESO shall establish bank accounts' overdraft capacity and services with its bank(s).

e) The IESO may only borrow from the following list of lenders:
   i. Government of Canada, Canadian provincial governments or any of their agencies; and
   ii. Canadian Schedule I or Schedule II or Schedule III financial institutions;

f) As determined by the CFO, the IESO may obtain a credit rating(s) to assist the IESO with establishing the IESO's creditworthiness to prospective lenders or counterparties.

g) Borrowing facilities shall only be utilized for the following purposes:
   i. To ensure the IESO corporation's operating liquidity and for purchases of IESO corporation's capital assets;
   ii. To ensure liquidity to complete the IESO's mandate for the Ontario electricity markets' settlements including the settlements for any Ontario government programs that the IESO is a service provider;
   iii. To ensure funding of any amounts, including variance accounts and timing differences, as prescribed by the Ontario Electricity Act and any Ontario regulation;
   ~~iii.~~iv. To ensure funding of any amounts resulting from or required by Ontario's Fair Hydro program;
   ~~iv.~~v. To ensure funding as may be necessary to manage timing differences between the receipts and payments with respect to IESO procurement contracts, electricity markets transactions, Smart Metering, and taxes; and

~~v.~~vi. As directed by the Minister of Energy;

6.2 Permitted Investments and Forward Foreign Exchange Contracts:

a) See **Schedule "A": Approved Financial Instruments Listing** for a listing of permitted investments and counterparties.
b) Investments or counterparties not listed in **Schedule "A"** are prohibited.
c) All investments must be denominated in either Canadian or US dollars.

End.

Schedule "A"
Independent Electricity System Operator ("IESO")
Approved Financial Instruments Listing

Permitted Categories of Investment Products or Hedging Financial Instrument	***Allowable Counterparties or Issuers***	***Minimum S&P's Rating or equivalent ([1])***	***Maximum Face Amounts per counterparty or issuer***	***Max Term Limit***
1. Deposits held in bank accounts *2. Term Deposits* *3. Bankers' Acceptances* *4. Bearer Deposit Notes* *5. Certificates of Deposit* *6. Guaranteed Investment Certificates*	*Canadian Schedule I Banks*	*Short term: **"A-1+"***	*~~$420~~500 million per counterparty;*	*65 days*
7. Treasury Bills *8. Bonds* *9. Debentures* *10. Promissory Notes*	*Government of Canada* *Or* *Canadian Provincial Government,* *Or* *Government Agency (fully guaranteed by the Government of Canada or Provincial government)*	*TBills and Promissory Notes: **"A-1+"*** *Bonds and Debentures: **"AA-"***	*Government of Canada and Province of Ontario: unlimited* *Other: $500million*	*365 days*
11. US$: Spot Market Purchases	*Canadian Schedule I Banks*	*Short term: **"A-1+"***	*The total estimated US$ expenditures within the next 100 days.* *Maximum of US$5million*	*100 days*
12. US $: Forward Foreign Exchange Contracts	*Canadian Schedule I Banks*	*Up to 1 year: **"A-1+"*** *Long term: **"AA-"***	*The total estimated US$ expenditures in the approved IESO business plan (annual expenses and capital expenditures to meet contractual obligations) less any US$ currency held by the IESO.* *Maximum of US$25million*	*25 months ([2])*

[1] All counterparties must have at least two (2) ratings that meet the IESO's minimum S&P's rating or equivalent (e.g. S&P, Moody or DBRS).
[2] US$ spot, and US$ Forward Foreign Exchange Contracts will be utilized to manage foreign exchange risk and not to engage in speculative trading.