Agenda Item Summary

Date of Meeting: November 22, 2017

Presenter:
Kim Marshall, VP Corporate Services and CFO
Anthony Martinello, Director, Treasury & Pension Operations
Jeannette Briggs, Director, Settlements – Corporate Services
Michael Boll, Associate General Counsel

Agenda Item: Item no. 4

Purpose of item:[1] Decision

Executive Summary[2]**:**

The purpose of this item is to request the approval of the Board of Directors for the IESO to execute key agreements required to implement the Government of Ontario's Fair Hydro Plan. The agreements are:

1) Master Transfer and Servicing Agreement between the IESO and the Fair Hydro Trust (the "financing entity");
2) Security Agreement in favour of the financing entity; and
3) Acknowledgement and Indemnity Agreement in favour of BNY Trust Company of Canada, in its capacity as Indenture Trustee of Fair Hydro Trust.

These agreements are necessary in order to enable transfers of the IESO's regulatory asset to the financing entity, so that the IESO receives the funds necessary to repay the amounts borrowed on the Fair Hydro credit facility and thereby adjust the IESO's Fair Hydro variance account accordingly.

The agreements are substantially settled but may be subject to comment by ratings agencies and therefore subject to further

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1 State the purpose of the agenda item: a) Education for a strategic issue, b) soliciting Feedback, or c) a Decision/Recommendation item.

2 Provide concise summary of issue, identifying why the item is important to the Board, with distilled analysis, and Management's recommendation.

negotiation to settle terms.

Management recommends:

- Board approval prior to completion of rating agencies' rating process, given the timelines for completion of the ratings process and execution of the various agreements required to implement and effect a first transfer of the regulatory asset in December;
- delegation of authority to CEO to finalize and execute the agreements in substantially the form provided with non-material changes, and to execute such non-material changes to the executed agreements;
- delegation to Board Chair, Chair of Audit Committee and CEO to finalize and execute the agreements if significant, unanticipated revisions are requested during the rating agencies' rating process resulting in material changes, and to execute such material changes to the executed agreements;
- delegation to one officer of the Corporation to execute and deliver additional ancillary agreements and all material instruments, certificates and documents necessary to implement the agreements; and
- delegation to any one of the Director, Treasury, or Director, Settlements, or Corporate Controller to execute non-material instruments, certificates and documents necessary to implement the agreements.

Significant Issues, Risks and Opportunities:[3]

The execution and implementation of these agreements is necessary to enable the transfer of the IESO's regulatory asset to the financing entity, and enable the IESO to receive the funds to pay down its Fair Hydro credit facility.

The IESO's decision to adopt regulatory accounting and include the market accounts in its financial statements was criticized by the Ontario Auditor General in a special report on the government's Fair Hydro Plan and will be discussed again in the Auditor General's annual report.

Entering into these agreements will assist the IESO to mitigate the enterprise level risk identified in the Risk Update on Fair Hydro memorandum "The structure proposed for the Ontario Fair Hydro Plan

[3] Provide concise description of significant issues, risks and opportunities.

is abandoned or fails, either in whole or in part".

Refer to Fair Hydro Risk Update

Materials[4]**:**

Board resolution

Board memo and the following attachments:

- Master Transfer and Servicing Agreement (see Article 2 for the provisions relating to transfer of the regulatory asset; and Article 3 for the IESO's role as servicer)
- Security Agreement
- Acknowledgement and Indemnity Agreement

The following attachments are provided for reference:

- Indemnity from Province
- Deputy Imbrogno May 15, 2017 letter
- DBRS methodology for Rating Canadian Structured Finance Transactions (see Appendix: Legislated Utility Collections)

Risk Update

[4] Materials (memo, slides, and reports) are to be concise, providing brief analysis of salient points, risks/opportunities, and Management's recommendations. If detailed report/ background information is necessary, it should be provided in an appendix with specific direction to key sections.