MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns provisional ratings to three classes of Canadian utility cost recovery notes issued by Fair Hydro Trust

Global Credit Research - 22 Jan 2018

Toronto, January 22, 2018 -- Moody's Investors Service (Moody's) has assigned provisional credit ratings to three classes of Series 2018-1 notes (the notes) to be issued by Fair Hydro Trust (FHT).

Complete rating actions are as follows:

Commercially Sensitive

RATINGS RATIONALE

Commercially Sensitive

FHT was established in connection with the Ontario Fair Hydro Plan Act, 2017 (the FHPA) to 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 residential consumers, small businesses and farms in the Province of Ontario (Aa2 stable) under the FHPA, and (ii) the higher actual costs payable for that electricity. All debt incurred by FHT to finance the investment asset is recoverable through a "Clean Energy Adjustment", which is a special charge to be imposed on the electricity bills of all specified consumers in the Province, starting in May 2021 and continuing to April 2047.

Our provisional ratings on the notes reflect our assessment of (1) the strength of the FHPA and the related regulations authorizing the creation of the investment asset and collection of recovery charges; (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.

PRINCIPAL METHODOLOGY

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

Factors that would lead to an upgrade or downgrade of the ratings:

A change to the FHPA or related regulations, or a change in the ability of the Province or a regulator to invoke such change could lead to rating actions. A change in the rating of the Province, as provider of the change in law guarantee, would also result in a change to the rating of the notes.

The ratings address the expected loss posed to investors by the principal payment default date of the notes. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the principal payment default date. Moody's ratings only address the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

In rating this transaction, Moody's used a cash flow model to model cash flow stress scenarios to determine the extent to which investors would receive timely payments of interest and principal in the stress scenarios, given the transaction structure and collateral composition.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.