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August 12, 2016

Independent Electricity System Operator
Station A, Box 4474
Toronto, ON
M5W 4E5

Re: Prudential Framework Review – 2016

Dear Sir or Madam:

The MEARIE Group welcomes the opportunity to provide feedback on IESO's Prudential Framework Review -2016.

The MEARIE Group requests the Prudential Framework Review consider replacing Letter of Credits (LOCs) posted by individual Local Distribution Companies (LDCs) with a LOC arrangement provided by a pool or multiple pool of LDCs. We believe pooled arrangements are aligned with the IESO's objective of balancing fairness, costs and default risk to all market participants.

We believe LDCs are already inappropriately disadvantaged under the current Prudential Framework as all of the credit risk of a rate payer not paying their electricity bill (including the cost of commodity, transmission costs, Global Adjustment and carbon taxes portions of such bills) is absorbed by the LDCs. Market participants such as generators, transmitters and different levels of government and their agencies do not absorb any losses relating to their portion of a defaulting ratepayer's electricity bill. Accordingly, the Prudential Framework Review needs to recognize the extent to which LDCs are already overly and arguably unfairly exposed to the credit risks within the entire regulatory framework when balancing fairness, costs and risks.

The review of actual experience of defaults has proven that LDCs have never defaulted in their payments to IESO since market opening and strongly indicates the likelihood of LDCs defaulting in future on their payments to IESO in comparison with other market participants is minimal. The acceptance of a single LOC for a pool of LDCs capitalizes on this fact and at the same time provides protection in the unlikelihood that a LDC does default.

The benefit to LDCs and their ratepayers of allowing a LOC arrangement provided by a pool of LDCs is that the costs of providing LOCs will be reduced and the availability of borrowing capital will be

increased allowing for reinvestment in existing infrastructure and investment in new infrastructure, all of which provide a direct benefit to Ontario's ratepayers.

In view of the above, we recommend allowing LDCs to pool their resources and provide a LOC that provides protection in the unlikelihood that any of the LDCs within a pool defaults and encourage the IESO to accept a form of pooling of LDC's resources in providing their Prudential Requirement.

Yours truly,
The MEARIE Group

A handwritten signature in black ink, appearing to read 'H. Prent', written in a cursive style.

Helmar Prent, CPA, CA
Vice President, Finance & Claims Services

Cc: Justin Rangooni, Vice President, Electricity Distributors Association
Kelly Parker, Vice President, BFL CANADA Risk and Insurance Services Inc.