Minister’s letterhead – Working Draft

Mr. Bernard Lord
Board Chair
Ontario Power Generation Inc.
700 University Avenue, 19th Floor
Toronto, ON M5G 1X6

Dear Mr. Lord:

Re: Ontario Fair Hydro Plan Act, 2017 and the Fair Allocation Amount

I write pursuant to my obligation under subsection 20(4) of the *Ontario Fair Hydro Plan Act, 2017* (the Act) to provide Ontario Power Generation (OPG), acting in its capacity as Financial Services Manager under the Act, with the Fair Allocation Amount (FAA) in respect of each reference period from July 1, 2017 to April 30, 2047. Terms used in this letter that are also used in the Act and the related regulations have the definitions provided in the Act and the related regulations.

The FAA for each reference period, determined in accordance with Section 20 (1) of the Act and Ontario Regulation 206/04 under the Act, including associated estimated financing costs, shall be the amount set out in Schedule “A” to this letter. I would also note that the estimated financing costs, including estimated fees, contained within the FAAs are reflective of input from OPG staff.

Commented [ESP1]: PLACEHOLDER

Included in Financing Costs are Fees – pending amendments to O.Reg. 206/17 and potential Board approval.

Also included in Schedule “A” are the readjustment amounts for the first four reference periods and additional readjustments that are expected to be made beyond the first four reference periods, reflective of past overpayments of clean energy costs between 2005 and 2017 and consistent with the Government of Ontario’s commitment to hold rate increases, for four years, to the rate of inflation ***[NTD: The language above reflects the Option 3 – Schedule “A”, which is recommended]***. Calculation of the FAAs in Schedule “A” as per s. 20(2) of the Act and related regulations have been adjusted to take into account the determination of these readjusted amounts.

To support the calculation of the FAA, the potential useful life of clean energy assets has been examined and a fair allocation of clean energy costs associated with those assets over time provided, so that specified consumers in the future pay their fair share for the benefits that they receive from those clean energy assets.

I trust OPG in its role as Financial Services Manager under the Act will prepare the Financing Plan in accordance with subsection 21(3) of the Act that reasonably aligns with these FAAs. I would also note that under the Act, the FAA amounts included in Schedule “A” may be updated in consultation with OPG staff from time to time. We expect that the FAA amounts will be updated on a periodic basis to reflect actual Independent Electricity System Operator (IESO) deferrals from actual Global Adjustment (GA) costs and consumer rate reductions and actual costs of the financing entities under the Fair Hydro Plan.

[*NTD: Optional Text for Discussion* – I would also note that Ministry of Energy staff have provided OPG staff with the residential bill assumptions from the upcoming 2017 Long-Term Energy Plan to provide further context in relation to the amounts included in Schedule "A".]

Commented [ESP2]: OPG has indicated that this information is required to help them deal with rating agencies.

However, OPG may be in the market place before the LTEP is publicly released.

We look forward to continuing to working with you as this initiative moves forward.

Sincerely,

Glenn Thibeault
Minister

c: Serge Imbrogno, Deputy Minister, Ministry of Energy
Jeffrey Lyash, CEO, Ontario Power Generation

<u>OPTION 1:</u> Provide OPG with FAAs for each reference period to 2047 and Readjustment Amounts (RAs) for first four reference periods (i.e., April 30, 2019).

> ***Note:*** *This option provides borrowing information consistent with the current regulation, but would be inconsistent with public commitments regarding four years of inflationary increases and would not provide OPG with a realistic overview of funding requirements during the OFHPA period.*

SCHEDULE "A" – FAIR ALLOCATION AMOUNT (***Note:** These numbers are <u>not</u> final and do not include interest costs and fees. The final numbers will include interest costs and fees)

REFERENCE PERIOD	FAIR ALLOCATION AMOUNT (FAA) ($ million)	READJUSTMENT AMOUNT (RA) ($ million)
2017-Jul	-931	-74
2017-Nov	-779	-341
2018-May	-629	-470
2018-Nov	-575	-155
2019-May	-555	-
2019-Nov	-531	-
2020-May	-525	-
2020-Nov	-504	-
2021-May	-157	-
2021-Jul	-343	-
2021-Nov	-478	-
2022-May	-473	-
2022-Nov	-451	-
2023-May	-446	-
2023-Nov	-429	-
2024-May	-426	-
2024-Nov	-395	-
2025-May	-384	-
2025-Nov	-341	-
2026-May	-323	-
2026-Nov	-311	-
2027-May	-308	-
2027-Nov	-235	-
2028-May	-202	-
2028-Nov	-82	-
2029-May	-23	-
2029-Nov	157	-
2030-May	249	-
2030-Nov	230	-
2031-May	223	-
2031-Nov	278	-
2032-May	308	-
2032-Nov	333	-
2033-May	349	-

REFERENCE PERIOD	FAIR ALLOCATION AMOUNT (FAA) ($ million)	READJUSTMENT AMOUNT (RA) ($ million)
2033-Nov	509	-
2034-May	594	-
2034-Nov	653	-
2035-May	691	-
2035-Nov	700	-
2036-May	713	-
2036-Nov	687	-
2037-May	682	-
2037-Nov	690	-
2038-May	702	-
2038-Nov	597	-
2039-May	552	-
2039-Nov	460	-
2040-May	420	-
2040-Nov	374	-
2041-May	356	-
2041-Nov	350	-
2042-May	352	-
2042-Nov	328	-
2043-May	321	-
2043-Nov	330	-
2044-May	339	-
2044-Nov	344	-
2045-May	350	-
2045-Nov	405	-
2046-May	438	-
2046-Nov	604	-
2047-May	922	-

OPTION 2: FAAs for each reference period to 2047 and RAs for all reference periods up until the end of the "inflationary cap" (i.e., April 30, 2021)

Note: *This option provides borrowing information consistent with public commitments regarding the four-year inflationary cap, but does not address any smoothing over subsequent years to return to the FAA. This option does not provide OPG with a realistic overview of funding requirements during the OFHPA period.*

SCHEDULE "A" – FAIR ALLOCATION AMOUNT (***Note:** These numbers are not final and do not include interest costs and fees. The final numbers will include interest costs and fees)

REFERENCE PERIOD	FAIR ALLOCATION AMOUNT (FAA) ($ million)	READJUSTMENT AMOUNT (RA) ($ million)
2017-Jul	-931	-74
2017-Nov	-779	-341
2018-May	-629	-470
2018-Nov	-562	-564
2019-May	-535	-617
2019-Nov	-461	-721
2020-May	-430	-781
2020-Nov	-357	-427
2021-May	-102	-341
2021-Jul	-223	-
2021-Nov	-284	-
2022-May	-268	-
2022-Nov	-243	-
2023-May	-234	-
2023-Nov	-213	-
2024-May	-205	-
2024-Nov	-171	-
2025-May	-156	-
2025-Nov	-108	-
2026-May	-86	-
2026-Nov	-69	-
2027-May	-62	-
2027-Nov	16	-
2028-May	54	-
2028-Nov	176	-
2029-May	238	-
2029-Nov	415	-
2030-May	509	-
2030-Nov	485	-
2031-May	479	-
2031-Nov	530	-
2032-May	562	-
2032-Nov	582	-

REFERENCE PERIOD	FAIR ALLOCATION AMOUNT (FAA) ($ million)	READJUSTMENT AMOUNT (RA) ($ million)
2033-May	599	-
2033-Nov	755	-
2034-May	842	-
2034-Nov	897	-
2035-May	935	-
2035-Nov	940	-
2036-May	955	-
2036-Nov	924	-
2037-May	921	-
2037-Nov	925	-
2038-May	939	-
2038-Nov	829	-
2039-May	785	-
2039-Nov	689	-
2040-May	650	-
2040-Nov	600	-
2041-May	582	-
2041-Nov	573	-
2042-May	576	-
2042-Nov	548	-
2043-May	541	-
2043-Nov	547	-
2044-May	557	-
2044-Nov	558	-
2045-May	565	-
2045-Nov	616	-
2046-May	649	-
2046-Nov	811	-
2047-May	1,199	-

<u>OPTION 3:</u> FAAs for each reference period to 2047 and RAs for all reference periods as relevant (i.e., for all reference periods where RAs are expected) <u>(Recommended)</u>

> ***Note:*** *This option provides a forecast of the full borrowing schedule, including a smoothed return to the FAA. Sharing the regulated and estimated RAs in addition to the FAAs provides a more realistic representation of the program requirements to OPG/rating agencies because financing and recovery reflects the combined total of FAAs and RAs.*

SCHEDULE "A" – FAIR ALLOCATION AMOUNT (***Note:** These numbers are <u>not</u> final and do not include interest costs and fees. The final numbers will include interest costs and fees)

REFERENCE PERIOD	FAIR ALLOCATION AMOUNT (FAA) ($ million)	READJUSTMENT AMOUNT (RA) ($ million)
2017-Jul	-931	-74
2017-Nov	-779	-341
2018-May	-629	-470
2018-Nov	-562	-564
2019-May	-535	-617
2019-Nov	-462	-721
2020-May	-431	-781
2020-Nov	-348	-784
2021-May	-98	-250
2021-Jul	-213	-546
2021-Nov	-233	-670
2022-May	-198	-615
2022-Nov	-133	-474
2023-May	-102	-410
2023-Nov	-55	-274
2024-May	-32	-210
2024-Nov	15	-69
2025-May	39	-
2025-Nov	89	-
2026-May	114	-
2026-Nov	134	-
2027-May	146	-
2027-Nov	218	-
2028-May	256	-
2028-Nov	370	-
2029-May	432	-
2029-Nov	606	-
2030-May	700	-
2030-Nov	673	-
2031-May	667	-
2031-Nov	714	-
2032-May	746	-

REFERENCE PERIOD	FAIR ALLOCATION AMOUNT (FAA) ($ million)	READJUSTMENT AMOUNT (RA) ($ million)
2032-Nov	762	-
2033-May	780	-
2033-Nov	932	-
2034-May	1,019	-
2034-Nov	1,070	-
2035-May	1,108	-
2035-Nov	1,110	-
2036-May	1,124	-
2036-Nov	1,090	-
2037-May	1,087	-
2037-Nov	1,087	-
2038-May	1,100	-
2038-Nov	988	-
2039-May	944	-
2039-Nov	844	-
2040-May	805	-
2040-Nov	752	-
2041-May	734	-
2041-Nov	722	-
2042-May	724	-
2042-Nov	693	-
2043-May	686	-
2043-Nov	688	-
2044-May	698	-
2044-Nov	695	-
2045-May	702	-
2045-Nov	750	-
2046-May	783	-
2046-Nov	942	-
2047-May	1,372	-