ONTARIO POWER GENERATION

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March 28, 2018

The Honourable Glenn Thibeault
Minister of Energy
4th Floor, Hearst Block
900 Bay Street
Toronto, Ontario
M7A 2E1

Couriered and sent via email

Dear Minister Thibeault,

Re: Financial Services Manager Report for 2017

Pursuant to section 14(3) of *Ontario Regulation 206/17*, Ontario Power Generation Inc., in its capacity as the Financial Services Manager ("FSM") under the *Ontario Fair Hydro Plan Act, 2017*, has prepared the requisite report with respect to its affairs as FSM during 2017 and it is enclosed herewith.

Sincerely,

John Lee
Vice President – Treasurer

cc (by email):
Serge Imbrogno, Deputy Minister of Energy
Alena Thouin, Deputy Director, Legal Services Branch, Ministry of Energy

Enclosure

FAIR HYDRO TRUST

FINANCIAL SERVICES MANAGER'S REPORT (AS OF DECEMBER 31, 2017)

The following is a summary of the key activities of the Financial Services Manager (FSM) under the *Ontario Fair Hydro Plan Act, 2017* which Ontario Power Generation Inc. (OPG) assumed in 2017. More details on the trustees, capitalization and financing structure are outlined in OPG's Financing Plan dated December 18, 2017.

I. Financing Entity and Financing Structure Implementation[1]

Financing Entity and Trustees

- Computershare Trust Company of Canada was appointed by OPG as the issuer trustee (Computershare or Issuer Trustee).
- Fair Hydro Trust (FHT) was established as a separate financing entity by the Issuer Trustee through a declaration of Trust. It is essentially 100 percent debt financed, with minimal equity as outlined in Table 1.
- BNY Trust Company of Canada was appointed by OPG as the indenture trustee (BNY or Indenture Trustee). The Indenture Trustee acts on behalf of all specified creditors of FHT.
- FHT appointed OPG as its agent to provide services and perform duties in planning, implementing and administering debt financing for FHT.

Table 1: FHT Unitholders and Capital Contributions

Unitholder	Number of Units Held	Capital Contribution
FHP2017 Inc., a wholly-owned subsidiary of OPG	1,000,000	$10,000.00
BNY, as Indenture Trustee	1	$0.01
Total	**1,000,001**	**$10,000.01**

Financing Structure

As noted in the Financing Plan under section B6, the financing strategy for the acquisition of Investment Interests from the Independent Electricity System Operator (IESO) will involve the use of short-term warehouse facilities to fund the acquisition, and subsequent refinancing by long-term debt once a sufficient short-term debt level is reached. To obtain short-term funding, FHT entered into a warehouse facility agreement with a bank syndicate comprised of CIBC, RBC, and Goldman Sachs for $800 million with a 2-year committed term expiring in December 2019. This senior warehouse facility is primarily funded through the syndicate's asset-backed commercial paper conduits.The development of FHT's financing and operational platforms are supported by the following key program agreements:

- **Master Trust Indenture (MTI)** – governs the terms of the debt issued by FHT, the order of payment and the collateral structure for all FHT obligations to all specified creditors.
- **Change of Law Protection Agreement** – provides assurance to specified creditors that upon the occurrence of a protection event, the Province of Ontario will fund all approved obligations, with limited rights to acceleration of payments.

[1] All activities and agreements outlined in section I occurred/were executed in December 2017.

- **Change of Law Process Agreement** – outlines the procedural requirements between the Province and OPG with respect to issuing debt that benefits from the limited guarantee under the Change of Law Protection Agreement.
- **Master Transfer and Servicing Agreement (MTSA)** – provides for the IESO's transfer of specified portions of the Regulatory Asset, and upon such transfers FHT acquires an Investment Interest. The agreement also describes the servicing obligations of the IESO.
- **Management Agreement** – Issuer Trustee delegates to OPG as FSM all powers and duties of managing FHT.

II. Investment Interest and Debt

On December 21, 2017, FHT purchased its first Investment Interest from the IESO in the amount of $1,179 million. The acquisition was financed through short-term warehouse facilities as summarized in Table 2.

Table 2: Total Asset and Debt as at December 31, 2017

	Asset ($M)	Debt ($M)		
Acquisition Date	Investment Interest/Financing Receivable	Tranche A Senior Debt (51%)	Tranche B Subordinated Debt (39%)	Tranche C Junior Subordinated Debt (10%)
		Capital Markets	OPG	OPG
Dec-21-2017	1,179	601	460	118

III. Interest Rates

The weighted average interest rates for the revolving warehouse facilities are summarized in Table 3.

Table 3: Interest Rates for Revolving Warehouse Facilities Debt

Revolving Warehouse Facilities	Outstanding	
As of December 31, 2017	Weighted Average Rates	$M
Tranche A – 51% – Senior Debt *	2.32%	601
Tranche B – 39% – Subordinated Debt	2.42%	460
Tranche C – 10% – Junior Subordinated Debt	2.42%	118
Total		**1,179**

* $800 million commitment for senior warehouse facility

IV. Cash Flow Requirements and Bank Accounts

Pursuant to the MTSA between FHT and the IESO, the IESO is required to pay FHT's carrying costs in accordance with *Ontario Regulation 206/17 General Regulation*. In 2017, carrying costs of $6.6 million were funded by the IESO.

In December 2017, the following bank accounts were established in the name of the Indenture Trustee pursuant to the requirements of the MTI:

- Fair Hydro Collection Account
- Fair Hydro Interest Accumulation Account

- Fair Hydro Principal Accumulation Account
- Fair Hydro Program Cash Reserve Account
- Fair Hydro Refinancing Account
- Fair Hydro IESO Cash Reserve Account

V. Financial Services Manager's Fees

On December 15, 2017, OPG submitted its proposed fee to the Ontario Energy Board (OEB) for the period of January 1, 2018 to March 31, 2019. The application proposes a base fee component of $2.75 million plus a variable fee component of ± $2.25 million. The total proposed fee is in the range of $0.5 million to $5 million.

VI. Subsequent Events

This section summarizes the key activities that occurred subsequent to December 31, 2017 and through the date of this report.

Term Debt Credit Ratings and Interest Rates

On February 9, 2018, FHT issued its first tranche of long-term debt, at lower financing rates than ten companies in the utilities and energy sector across Canada. The credit ratings and interest rates for FHT's long-term debt instruments are summarized in Table 4.

Table 4: Credit Ratings and Interest Rates for Term Debt

Term Debt *	**Outstanding**		**Credit Ratings**	
Issued on February 9, 2018	Rate	$M	Moody's	DBRS
Tranche A – 51% – Senior Debt	3.36%	500	Aa2(sf)	AAA(sf)
Tranche B – 39% – Subordinated Debt	3.64%	382	Aa2(sf)	AA(sf)
Tranche C – 10% – Junior Subordinated Debt	3.96%	98	Aa2(sf)	A(sf)
Total		**980**		

* Term of 15.25 years due May 15, 2033

2017 FSM Fees Application

On February 28, 2018, OPG's proposed fee of approximately $5.7 million for the period of June 1, 2017 to December 31, 2017 was submitted to the OEB.