BRIEFING NOTE
MOU WITH OFA TO SUPPORT FAIR HYDRO PLAN

ISSUE

Staff at the Ministry of Energy and Ontario Financing Authority (OFA) have agreed on a Memorandum of Understanding (MOU) outlining the process by which OFA will make payments to Ontario Power Generation (OPG) on behalf of the Province to support the Fair Hydro Plan (FHP).

- On November 29, 2017, the Ministry of Energy and OPG signed a Master Share Subscription Agreement (the “Agreement”) outlining the process for equity injections (the “Subscription Payment”). As per the Agreement, the Province will make Subscription Payments, to OPG in exchange for shares (the “Class A Shares”) in OPG to support OPG’s acquisitions of regulatory assets (the “Assets”) from the Independent Electricity System Operator (IESO) (the “Equity Injection Plan”).

- The MOU with the OFA helps to implement the objectives of the Agreement.

Policy, legal and corporate staff from both the Ministry and OFA were involved in developing the MOU. Once approved, the MOU will be signed by the Assistant Deputy Ministers of both the Ministry’s Strategic, Network and Agency Policy Division (SNAP) and the OFA, consistent with authorized delegations.

CONTEXT

The Government’s FHP, was formally established through the *Ontario Fair Hydro Plan Act, 2017* (the “Act”) and its regulations.

The FHP involves the IESO invoicing consumers for the Global Adjustment (GA) charge but defers the collection of the full amounts of the GA every month.

The IESO must record the deferred portion of the GA in a variance account, which constitutes the Assets, in accordance with the Act.

OPG, the Financial Services Manager, will create a special purpose financing entity to acquire portions of the Assets periodically from IESO.

The Province has agreed to fund up to 44 percent of the total funding requirement for the Assets through Subscription Payments in OPG. To facilitate the Equity Injection Plan, OPG has, having received shareholder consent, amended its articles to create a new class of non-voting, redeemable shares known as the Class A Shares. The Province would subscribe for Class A Shares periodically. OPG would then invest these amounts into the debt of the financing entity.

The Subscription Payments will reflect the funding requirement for the Assets from IESO. Subscription Payments are due to OPG within five business days of the Ministry receiving the Share Subscription.

MOU WITH OFA

The attached MOU outlines the process by which the OFA will make the Subscription Payments to OPG on behalf of the Ministry for the purposes of the Equity Injection Plan.

The MOU is administrative in nature. Key features include:

- **Timing:** OFA requires three business days to process the Subscription Payment to OPG. The Ministry must certify the Subscription Payment amounts within two business days after receiving the Share Subscription from OPG to allow OFA to make the Subscription Payment within the five-day window, as per the Agreement.

- **Supporting Documents:** The MOU requires the Ministry to certify that OPG is entitled to the Subscription Payment, as per section 11.4 of the *Financial Administration Act* (Ontario), and that the Ministry has sufficient room in its allocation for the requested amount. The Ministry will use the Transfer Notice, provided by OPG, as supporting evidence to confirm that amount detailed in the Share Subscription is correct.

    - The Transfer Notice is provided by the IESO to OPG as part of the Asset acquisition.

- **Delegation of Signing Authority:** Given that the Subscription Payment will take place once per month, the Ministry recommended delegating signing authority to an Assistant Deputy Minister for supporting material under the MOU, as well as the Agreement. The Minister of Energy made these delegations on November 29, 2017.

- The appendices outline the overall processes to facilitate the monthly Subscription Payments.

The MOU also asserts the OFA’s limited role in making Subscription Payments. The OFA will not be responsible for auditing or verifying the correctness of the Share Subscriptions, monitoring OPG’s application of the Subscription Payments, monitoring the balance of the Appropriated Amount, or ensuring the Appropriated Amount is sufficient.

December 1, 2017
Strategic Policy & Analytics Branch

Appendix A: OPG Equity Injection: Supporting Documentation

The following documents need to be signed to facilitate the monthly payments from ENERGY to OPG to support the Fair Hydro Plan.

1. Shareholder Resolution: Class A Shares

- Minister of Energy signs Shareholder Resolution authorizing OPG to amend its articles.
- This will allow OPG to issue an unlimited number of Class A shares

2. ENERGY-OPG Master Subscription Agreement (MSA)

- Minister of Energy & OPG sign MSA outlining the process for periodic payments from the Province to OPG.
- OPG will use payments to fund debt obligations as Financing Entity.
- ENERGY will purchase Class A shares for its equity injection payments.

3. ENERGY-OFA Memorandum of Understanding (MOU)

- SNAP ADM & OFA sign MOU confirming that OFA will make the equity injection payments to OPG on ENERGY's behalf.
- The MOU outlines the process for how information will be exchanged and the roles of each party.

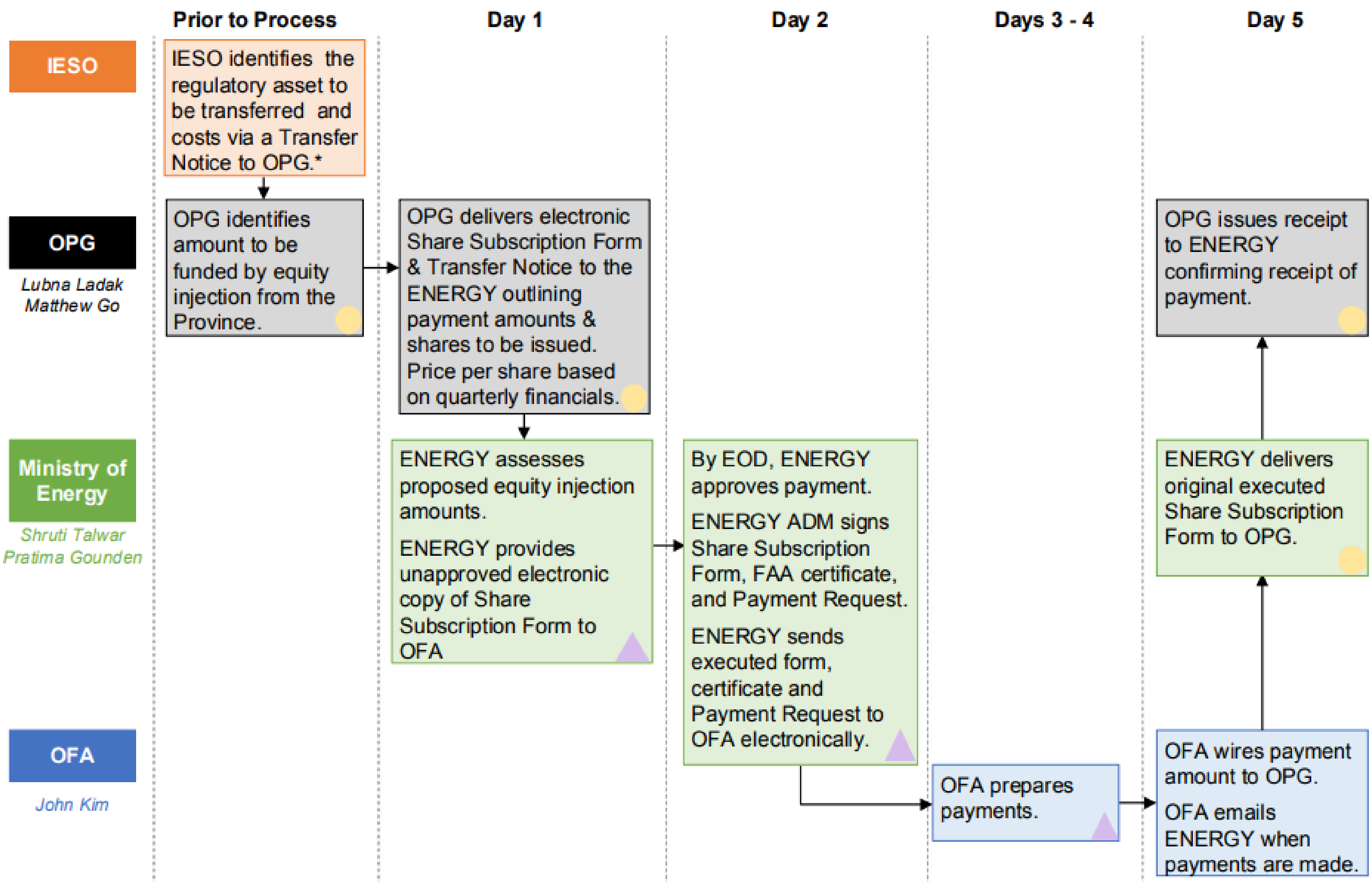
4. Signing Delegation: Equity injection process

- Delegation to ADM for signing routine monthly documents in support of the equity injection process.
- Delegation is needed for 1) executing payments under the MSA and 2) certifying payments under the MOU.

Appendix A: Monthly OPG Equity Injection Process

Process from OPG-ENERGY Master Share Subscription Agreement

Process from OFA-ENERGY MOU Relating to Fair Hydro Plan



*OPG will notify IESO of its monthly fees & expenses, to be included in Transfer Notice amounts