Q&A Response – Supplemental Questions

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years).

- Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).