MEETING NOTE

NAME OF ORGANIZATION: Secretary of the Cabinet

DATE/TIME OF MEETING: January 16, 2018 / 2:00 – 2:30 pm

LOCATION OF MEETING: SOC Boardroom, Room 6420, Whitney Block

ATTENDEES:

Ministry of Energy
Serge Imbrogno, Deputy Minister

Cabinet Office
Steve Orsini, Secretary of the Cabinet

AGENDA:

1. WATAY
2. Ontario Fair Hydro Plan (OFHP) Financing Plan Update

NOTES ON AGENDA ITEMS:

1. Watay

<u>Suggested Response:</u>

- **We are very pleased that the negotiating teams reached an greement-in-principle on the funding framework.**

- **I am confident that we can finalize the MOU and Term sheet, then work out the remaining details in the definitive agreements and allow Watay to proceed with developing the project.**

- **We look forward to planning a joint announcement with Watay and the federal government celebrating this milestone.**

- **We are in active discussions about the timing of such an announcement, which could occur as soon as early February. We recognize that this will require internal approvals on the agreement on an accelerated timeline.**

- **Ontario, Canada and Wataynikaneyap are working to finalize the MOU and Term Sheet to allow Watayanikaneyap to take the agreements to their board of directors and First Nations for approval on January 30th.**

- **Canada's contribution is essential to ensuring this project represents good value for ratepayers. It is also important that the federal contribution does not otherwise offset funding for other Ontario infrastructure commitments.**

<u>Background:</u>

- ENERGY has been engaging with federal counterparts over the past three years to come to a common understanding of the respective parties' costs and potential benefits to grid connection as compared to maintaining the status quo diesel generation in remote First Nation communities.

- The negotiation teams reached agreement at a meeting on December 20th, 2017 on general terms of the funding amount and mechanism.

  - Ontario will loan up to $1.3B to Watay to finance construction.

  - Canada will make a contribution of $1.55B, spread over two years at the time of completion of construction.

  - At in-service, Watay will make a rate application to the OEB reflecting a capital structure that was determined through negotiation.

  - The agreement provides an incentive for Watay to manage capital costs by reducing Watay's equity stake (and return on equity) if capital costs rise above forecast.

  - Based on the final approved capital costs, some proportion of the federal contribution will be held in a trust and paid to Watay to offset ratepayer costs over a defined period of time.

  - Ratepayers will then subsidize the balance of project costs through the Rural and Remote Rate Protection (RRRP) subsidy.

- Negotiating teams are now focused on the details of the agreement. Watay is currently reviewing a draft MOU and draft Term Sheet prepared by Ontario and Canada. The Term Sheet and MOU will support development of definitive agreements.

- ENERGY plans to bring forward a Treasury Board submission seeking approval for the funding mechanism when all parties have reached agreement through the negotiation process.

Pikangikum

- Funding of $60M by the federal government was announced in August for the Pikangikum connection.

- Pikangikum is proceeding on an accelerated timeline because it is one of the communities closest to the existing grid and because of the urgent need for infrastructure in that community.

- Ontario is supporting the connection of Pikangikum by assisting with the transfer of the electricity distribution system to Hydro One Remote Communities Inc.

- This will allow for application of the RRRP subsidy currently available to other remote communities that will offset operating costs and maintain fair hydro rates in Pikangikum.

- The subsidization of ongoing operational costs is a significant investment in Pikangikum when compared to the current context where Ontario does not have a role in funding service to the community.

Wataynikaneyap Power Project Update

- Watay is a partnership between Fortis Ontario, a transmitter, and a consortium of 22 First Nations. The First Nations are majority owners and seek to buy out Fortis' stake over time with the goal of 100% ownership.

- Watay has made progress developing the project including advancing Environmental Assessments (EA):

    - Phase 1 draft individual EA was submitted to MOECC in June 2017, and Watay is planning for approval in summer 2018.

    - Phase 2 class EA underway. Watay is expecting a statement of completion in Q3 2018.

- Watay plans to submit a Leave to Construct (LTC) application to the Ontario Energy Board in early 2018 for both phases of its project to connect 16 communities.

    - An application for LTC would need to detail the financial arrangements related to capital funding so that the Board could consider impacts to ratepayers. Finalizing the terms of the funding framework is necessary before Watay can file.

2. OFHP Financing Plan Update

Suggested Response:

- **The Ministry of Energy, OPG, OEB, IESO, and OFA have been working to implement GA refinancing as planned.**

- **On January 22, 2018, OPG is expected to go to market for long term financing of the first tranche of debt under Ontario's Fair Hydro Plan.**

- **The next asset transfer/equity injection from the Province is expected to take place in March 2018.**

Background:

- On June 1, 2017, the *Fair Hydro Act* received Royal Assent, which enabled the Province to temporarily reduce the amount of the Global Adjustment (GA) charged to electricity consumers that are eligible for the Fair Hydro Plan.

- The Province requested that OPG administer the GA deferral because of OPG's participation in the market, regulatory knowledge and anticipated ability to consolidate the activity and accounting with OPG's financials.

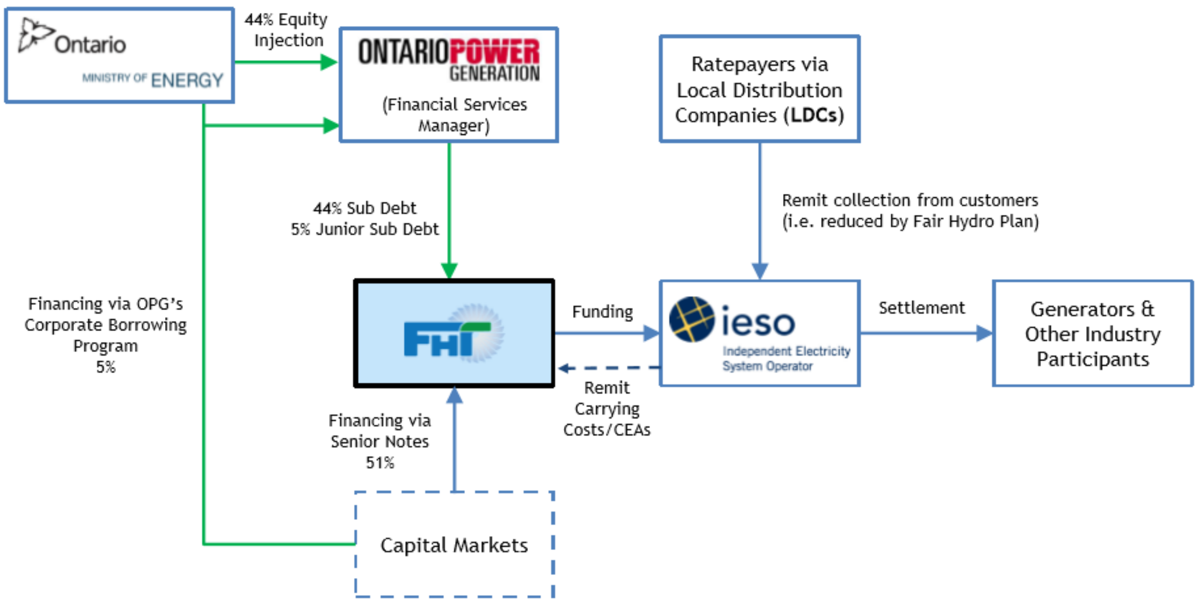
  - OPG acts as the Financial Services Manager (FSM) of the financing of OFHP.

- The implementation of OFHP will be financed by the Fair Hydro Trust (FHT) through the issuance of debt.

- A combination of senior debt (i.e., sourced from capital markets) and subordinated debt (i.e., mainly sourced by additional equity from the shareholder) will be issued to fund the deferred amount.

  - The senior debt is expected to fund 51% of the financing and related costs of the debt. See Figure 1 below for the transaction structure.

Figure 1: Transaction Structure



- IESO has been managing a reduction in the GA received from electricity consumers since OEB adjusted rates to reflect OFHP reductions partially on May 1, 2017 and fully on July 1, 2017.

- OPG has established a financing entity (i.e., the Fair Hydro Trust) that will borrow funds from the following:

  - Capital markets (51%); and

  - Subordinated OPG debt, financed through equity injections from the Province (44%) and OPG, financing from capital markets (5%).

- On December 21, 2017, OPG purchased $1.560 billion of short-term debt of which $1.179 billion has been drawn to buy the initial investment asset from IESO.

- OPG needs to go to market so that the full GA deferral can be funded.

  - OPG has indicated that the inaugural long-term debt issuance is expected to occur on January 22 and close in early February 2018.

- OPG will require equity injections on an ongoing basis in order to provide the 44% share of financing for the financing entity to acquire the regulatory asset from IESO and keep its capital structure in line.

    - On a periodic basis, OPG will send a notice to the Ministry of Energy, requesting a certain amount of equity based on the amount of the regulatory asset it plans to purchase in a fiscal year.

    - The Ministry of Energy will be responsible for seeking approval for the investment envelope each year. This arrangement is as per the OPG-ENERGY Master Subscription Agreement that was signed on November 29, 2017.

    - The Ontario Financing Authority will flow the funds on the Ministry’s behalf as per the OFA-ENERGY MOU that was signed on December 6, 2017.

    - The next asset transfer/equity injection expected to take place in March 2018.

- The financing cost of the debt and other costs of running the program will form part of the amounts recovered from customers over the term of the program.