FAIR HYDRO TRUST FINANCING PLAN

[November] 2017

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A. Background

In June 2017, the Province enacted the *Ontario Fair Hydro Plan Act, 2017* (the Fair Hydro Act or the Act), to establish a framework under which the costs and benefits associated with the Government of Ontario's (the Province) clean energy initiatives are to be fairly allocated between present and future consumers of electricity under Ontario's Fair Hydro Plan (Fair Hydro Plan or FHP). The Act requires the Ontario Energy Board (OEB) to set rates that reduce average electricity bills for specified consumers by 25 percent commencing on July 1, 2017. The total bill reduction of 25 percent is comprised of an 8 percent reduction of the Provincial portion of the harmonized sales tax, with the remaining 17 percent achieved by decreasing energy rates for specified consumers paying the Regulated Price Plan rate and providing a global adjustment reduction credit for other specified consumers. The reduction in electricity bills will result in a shortfall in the Independent Electricity System Operator's (IESO) collections, which will need to be financed in order to pay the underlying global adjustment costs (GAC). The objective of the Fair Hydro Plan Program (FHP Program) is to refinance a portion of the deferred GAC over a longer period.

Under the Act, OPG is appointed as the Financial Services Manager (FSM) and is given the authority to, among other things, establish and manage one or more financing entities to raise debt financing (referred to as "funding obligations") for the purposes of the Act. The Act requires the Minister of Energy (MOE) to calculate the Fair Allocation Amount and for the FSM to incur funding obligations that, subject to refinancing, reasonably align with the Fair Allocation Amount, as adjusted by any readjustment amount.

The following attendant regulations were enacted in support of the Act:

- *Ontario Regulation 206/17 General* (General Regulation) provides details on specific requirements of the Act, in particular, the requirements for the Financing Plan.
- *Ontario Regulation 195/17 Fair Adjustment* provides details on rate reductions up to April 30, 2019 for specified consumers under the Act.
- *Ontario Regulation 196/17 Invoicing Requirements* provides details on information to be included with the invoice for specified consumers under the Act.

Under sections 21(1) and 21(2) of the Act, OPG, as FSM, has an obligation to prepare a Financing Plan in accordance with the Act and regulations, and to deliver it to the Minister of Energy. Under section 21(6) of the Act, the FSM has the right to amend the Financing Plan from time to time, without affecting any Clean Energy Adjustment that has already been determined or any funding obligations that have already been incurred before the amendment.

This Financing Plan was prepared based on the information available to, and the views of, OPG at the time this Financing Plan was prepared (or amended, as applicable). This Financing Plan also includes forward-looking information, which is subject to change. Actual outcomes and results may differ materially from what is expressed, implied or forecasted due to, but not limited to, changes in underlying assumptions relating to the Fair Allocation Amount, interest rates, investor interest, market capacity, market conditions, and credit rating assessments. References made to the "current Fair Allocation Amount" pertains to the Fair Allocation Amount received by OPG from the MOE at the end of September 2017. Terms that are capitalized and not defined herein have meanings ascribed to the same terms as in the Act or in the General Regulation. All amounts presented are in Canadian dollars.

1. Financing Entity – Fair Hydro Trust

<u>Trustees</u>

In **[**November**]** 2017, OPG as FSM, appointed Computershare Trust Company of Canada to act as the third party issuer trustee (Computershare or Issuer Trustee). Following its appointment, the Fair Hydro Trust (the Trust) was established as a financing entity contemplated in the Act through a declaration of trust. The Trust is structured to be bankruptcy remote from OPG. The Issuer Trustee is empowered under the declaration of trust to appoint, employ or contract with any person for the transaction of the Trust's activities. Under the Management Agreement between the Trust (by the Issuer Trustee) and OPG, the Trust appointed OPG as its agent to provide services and perform duties for the Trust in planning, implementing and administering the debt financing for the FHP Program.

In **[**November**]** 2017, OPG as FSM, appointed BNY Trust Company of Canada, as the third party indenture trustee (BNY or Indenture Trustee). The Indenture Trustee will be acting on behalf of all specified creditors, who are all persons who may have contractual claims against the Trust under the FHP Program agreements contemplated by the Master Trust Indenture (MTI) governing the debt issued by the Trust.

<u>Unitholders</u>

The Trust will carry on activities for the benefit of its unitholders outlined below:

<u>Table 1: Fair Hydro Trust Unitholders</u>

Unitholder	Number of Units Held
FHP2017 Inc., a wholly-owned subsidiary of OPG	1,000,000
BNY, as Indenture Trustee	1
Total Units Outstanding	1,000,001

<u>Trust Capitalization Structure</u>

The Trust will be 100 percent debt financed and the contemplated source of funding is summarized in Table 2.

Table 2: Type and Source of Debt Funding

Tranche and Debt Type	Source of Funding	% of Total Funding Requirement
Tranche A Senior Debt	Capital Markets	51%
Tranche B Subordinated Debt	OPG via Province	39%
Tranche C Junior Subordinated Debt	OPG via Province	5%
	OPG via Capital Markets	5%

The Trust will issue senior debt in the capital markets to finance 51 percent of the total funding requirement related to the deferred GAC (Tranche A). The financing platform was developed to allow the Trust access to both the Canadian and United States (US) markets in order to optimize pricing, provide flexibility, and market capacity. Further details on the types of financing that can be utilized are outlined under the heading *Current Funding Options*.

Through periodic equity injections in OPG, the Province is expected to provide 44 percent of the total funding requirement throughout the duration of the FHP Program. OPG will invest the proceeds from the equity injections into the Trust, with 39 percent in Tranche B as subordinated debt and five percent in Tranche C as junior subordinated debt.

OPG will invest the remaining five percent of the total funding requirement in Tranche C as junior subordinated debt, using internally generated funds or proceeds raised from debt issuances from the public markets.

2. OPG's Duties and Responsibilities

<u>Financial Services Manager under the Act</u>

OPG, as FSM, will perform its duties and responsibilities under the Act and its attendant regulations. These include, but are not limited to, the following:

- Establish one or more financing entities to incur funding obligations for the FHP Program
- Prepare a written Financing Plan to be used by OPG to evaluate the incurrence of funding obligations to acquire and finance a portion of the GAC deferral
- Ensure that funding obligations are incurred in a manner that is consistent with the Financing Plan
- Forecast the cash flow requirements of the financing entities
- Determine the monthly Clean Energy Adjustment for a particular reference period
- Administer the Investment Asset on behalf of the financing entities
- Establish and charge fees to the financing entities to recover costs and expenditures and to earn a return
- Seek the best terms available at the time of incurrence of a funding obligation, having regard to other financing transactions of similar size and type

- Apply debt proceeds to purchase an Investment Interest or repay or redeem outstanding debt
- Consider the interests of specified consumers with respect to stable and predictable electricity rates
- Deal with related parties on arm's length terms
- Fulfil various reporting requirements to stakeholders

Manager under the Management Agreement

OPG has also entered into a management agreement with the Issuer Trustee, on behalf of the Trust, whereby all of the powers and duties of managing the Trust have been delegated to OPG as the manager. The duties and responsibilities associated with this role includes:

- Determining whether to incur funding obligations to acquire an Investment Interest or to refinance existing funding obligations;
- Negotiating and entering into program agreements;
- Maintaining accounts and banking records;
- Preparing any offering documents furnished by the Trust to prospective purchasers of funding obligations; and
- Preparing financial statements and tax filings on behalf of the Trust.

OPG's entitlement to fees, as FSM, is subject to the payment priorities outlined in the MTI and summarized in Section C, *Application of Recovery Amounts to Funding Obligations,* Figure 5. The FSM is not entitled to resign from its duties or terminate the management agreement as long as funding obligations remain outstanding. OPG may be terminated by the Issuer Trustee, with the consent of the Indenture Trustee, or by the Indenture Trustee in accordance with the MTI.

3. Fair Allocation Amount and the Financing Plan

The Fair Allocation Amount, including the readjustment amount, is an amount calculated under the Act and the regulations by the MOE for every reference period over the term of the FHP Program. It is intended to allocate the estimated Clean Energy Costs and Clean Energy Benefits fairly among specified consumers.

The FSM is required to prepare a Financing Plan under the Act to evaluate whether funding obligations should be incurred by the Trust. OPG is to have regard to certain prescribed principles (outlined in detail in Section B below), including that funding obligations should be incurred so that the estimated Finance Amount that would become due and payable during a reference period will, subject to refinancing, reasonably align with the Fair Allocation Amount determined in respect of such reference period, as adjusted by a readjustment amount where applicable. In other words, the Financing Plan should contemplate the issuance of funding obligations from time to time, with terms that would result in Clean Energy Adjustments being payable by specified consumers to ensure that they are bearing their fair share of the costs of providing Clean Energy benefits. The Act also provides that each funding obligation is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated Finance Amount with the Fair Allocation Amount.

Figures 1 and 2 illustrate the FHP Program's financing profile over the next 30-year period.

Figure 1: Fair Hydro Trust Debt Balance

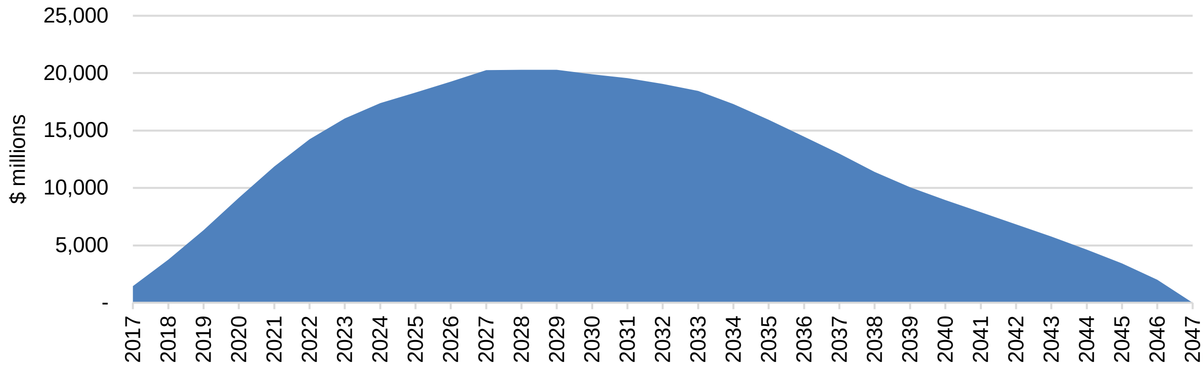
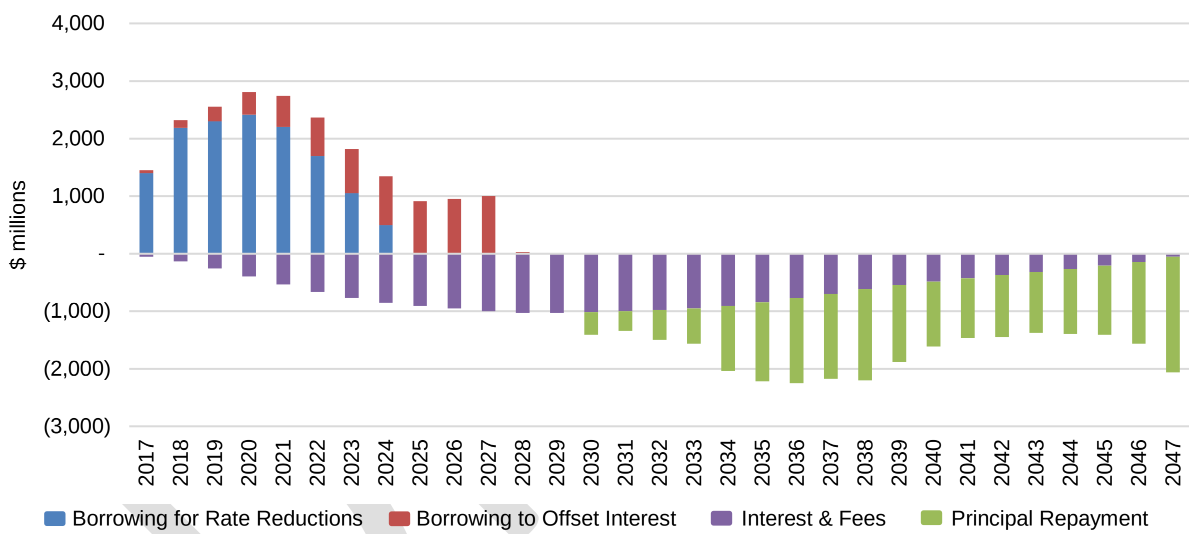


Figure 2: Fair Hydro Trust Borrowing and Repayment Profile



The Fair Allocation Amount is a net amount, either positive or negative, equal to the difference between the following:

1) estimated costs of clean energy initiatives without adjustment; and
2) a re-profiling of the costs in item 1) plus:
    a. the estimated operating and financing costs of the FHP Program, and
    b. the repayment of the readjustment amount.

A negative Fair Allocation Amount in any reference period generally represents a period of borrowing, and a positive Fair Allocation Amount generally represents a period of principal repayment.

In a reference period when the Fair Allocation Amount is negative, the operating and financing costs of the FHP Program are shown in the Fair Allocation Amount calculation as an increase in the debt of the FHP Program. This treatment is equivalent to increasing the amount of the deferred GAC by providing specified consumers with a higher rate reduction. The repayment of the related debt is included in the Fair Allocation Amount calculation to establish that all debt will be repaid by the end of the FHP Program. During these periods, operating and financing costs of the FHP Program are considered to align with the Fair Allocation Amount as long as these costs do not exceed the corresponding components in the Fair Allocation Amount calculation in any reference period by more than +/- 15 percent. If these costs exceed the corresponding components of the Fair Allocation Amount by more than +/- 15 percent, the FSM will take reasonable actions in accordance with the Act and regulations to align to the Fair Allocation Amount. Variability in costs is expected throughout the FHP Program as the Fair Allocation Amount was calculated on a forecast basis. Accordingly, any variability that is less than +/- 15 percent is deemed to be within an acceptable range.

<u>Assessment for Reasonable Alignment</u>

The Act stipulates that the Financing Plan must reasonably align with Fair Allocation Amount. This requirement is expected to be achieved through the consistent application of the following methodology, guidelines, and steps throughout the term of the FHP Program:

- Maintain a financial model that captures the funding obligations requirements of the Trust. Translate the funding requirements into expected cash flows by determining the related interest amounts, reserve requirements, fees, principal repayment, and the Trust's operating costs. This exercise will be performed for each reference period over the term of the program.
- Determine and assess the following:
    - For reference periods when the Fair Allocation Amount is negative, determine whether the forecast cash flow requirements is less than or equal to the financing and operating costs reflected in the Fair Allocation Amount as additional debt of the Trust. If the forecast cash flow requirements exceed the addition to the debt in the Fair Allocation Amount by more than +/- 15 percent, determine the cause of the variance. In these situations, the FSM will take reasonable actions in accordance with the Act and regulations to align to the Fair Allocation Amount.
    - For reference periods when the Fair Allocation Amount is positive, determine whether the forecast cash flow requirements is less than or equal to the Fair Allocation Amount. If the forecast cash flow requirements exceed the Fair Allocation Amount by more than +/- 15 percent, determine the cause of the variance. In these situations, the FSM will take reasonable actions in accordance with the Act and regulations to align to the Fair Allocation Amount.
- Due to the timing of the collection of cash flows, the General Regulation contemplates the use of reserve accounts. Provisions for reserves are excluded from the reasonable alignment assessment as these amounts are required to allow the Trust to incur the funding obligations. In addition, the reserve balances will be credited to specified consumers at the end of the term through the true-up mechanism if they are not required to satisfy terms of any funding obligation agreements pursuant to the MTI. Refer to *Financing Reserve and Capital Accounts* for more information on reserve accounts.
- Utilize and apply an accrual methodology when determining costs of the program, except for debt issuance costs, principal repayments, and reserve requirements.

The FSM will establish a methodology for assessing reasonable alignment at such time when a new Fair Allocation Amount letter is received from the MOE.

B. Principles and Assumptions of the Financing Plan

This section outlines the various principles and assumptions that guided the development of this Financing Plan in accordance with the Act and section 14 of the General Regulation. The same principles and assumptions will apply to all subsequent revisions of the Financing Plan, if required.

The FSM is required to make reasonable assumptions regarding the following matters:

1. IESO Deferral for Future Months

The FSM will base its expectation of the IESO deferrals on the most current version of the Fair Allocation Amount and readjustment amounts provided by the MOE. Actual IESO deferrals and forecasts of near term deferrals, if available, will be used to guide forecast deferrals over the next quarter.

2. Future Transfers of Portions of the IESO's Regulatory Asset

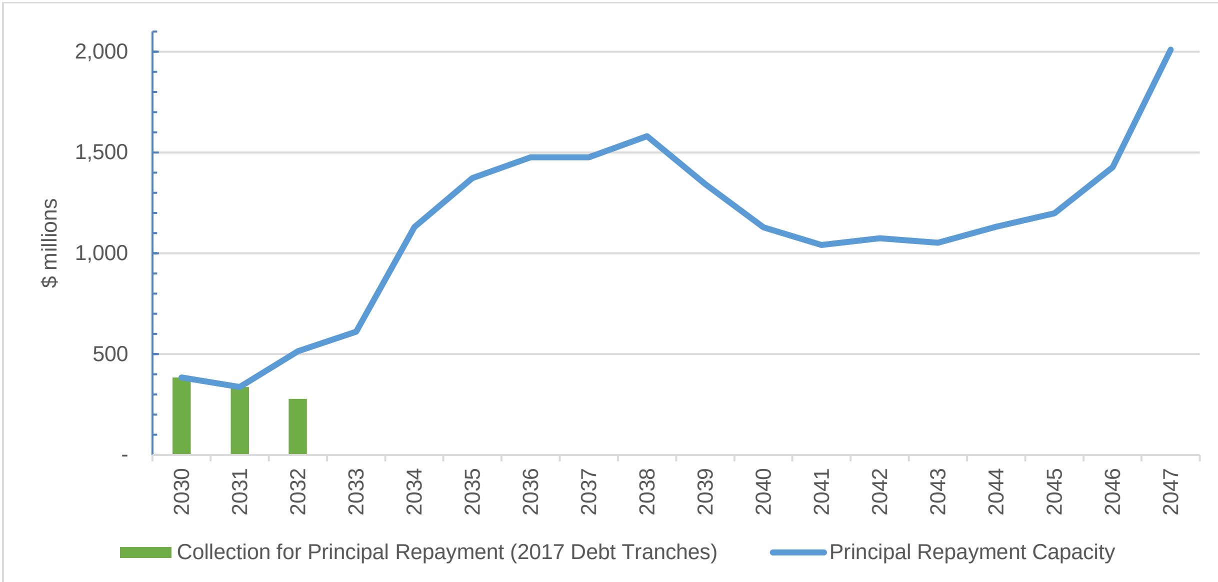
The Trust anticipates periodic purchases of Investment Assets from the IESO when the cumulative balance of its regulatory assets is large enough to be financed and when effective financing options are available to the Trust. The market capacity for both long-term and short-term debt financing will also be key elements to consider when determining the most cost efficient option.

3. Term to Maturity of Funding Obligations

Initial Debt Tranche – 2017 Borrowing

The forecast debt profile for the Trust based on the current Fair Allocation Amount received from the Province at the end of September 2017 indicates that principal repayments can commence in 2030 (see Figure 3). However, the principal repayment amount for this year is expected to be relatively small at approximately $400 million for the year or about $200 million for each six-month reference period. Accordingly, principal repayment of the 2017 debt tranche is expected to commence in 2032 when the cumulative principal repayment amount reaches approximately $1 billion, which indicates a minimum term for the initial debt issuance of 15 years (i.e. 2017-2032). This offering is expected to include $500 million of senior notes, which is a sizeable amount to ensure sufficient liquidity and marketability. Subsequently, principal repayment increases to approximately $1.5 billion annually or $0.75 billion for each reference period by around 2035 allowing for larger single maturities.

Figure 3: Principal Repayment Profile Based on Current Fair Allocation Amount



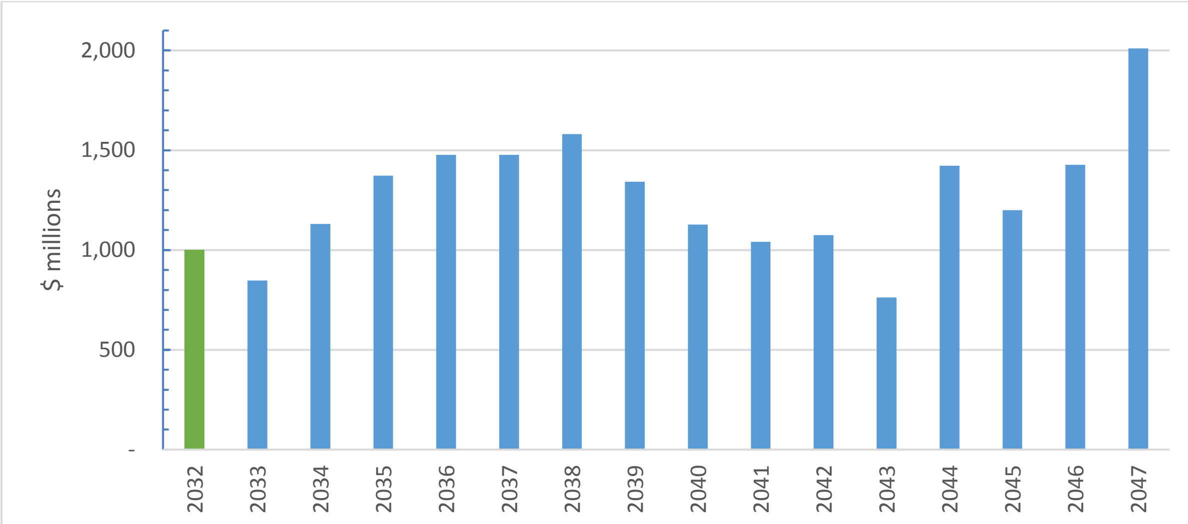
This length of term for an asset-backed security (ABS) is unprecedented in the Canadian market where terms are typically 10 years or less. Therefore, it is expected that a higher premium will be required to attract investors. Refer to Table 3 under the heading *Interest Rates* for the indicative current pricing range for all debt tranches, including senior debt.

For a new issuer such as the Trust offering a unique program, a strategy of issuing a 15-year term paper may not provide an optimal initial pricing given the absence of a specific credit curve for the Trust. It is expected that at program inception, the Trust will issue debt to cover both short and long-term exposures. The terms of maturities will be staggered, up to year 30, with maturities capped at the projected Fair Allocation Amount and readjustment amount, during each six-month reference period. In addition, consideration for a combination of characteristics established by the Fair Allocation Amount curve and investor interest will drive the term of a funding obligation.

Indicative Debt Maturities for Post-2017 Borrowings

Using the current Fair Allocation Amount, the forecast debt maturities over the life of the FHP Program was derived in Figure 4 for illustrative purposes only and is current as of the date of this Financing Plan. Actual debt maturities may differ materially from what is illustrated in Figure 4 primarily due, but not limited to, future changes in the Fair Allocation Amount.

Figure 4: Indicative Debt Maturities Using Current Fair Allocation Amount



The key objective when determining the indicative debt maturities in Figure 4 is to align the annual amount of debt maturities with the principal repayment capacity under the Fair Allocation Amount curve. In years where the principal repayment capacity is less than $500 million, the debt maturities will fall in subsequent years where the cumulative maturities do not exceed the cumulative principal repayment capacity. This type of decision will be made along with other considerations such as size of each issuance to ensure liquidity (and thus, cost efficiency). As this schedule is based on the current Fair Allocation Amount curve and its underlying assumptions, a shift in the curve and/or any changes in the assumptions will result in changes to this indicative debt maturity schedule.

4. Refinancing

The MTI requires the Trust to establish and maintain a deposit account in the name of the Indenture Trustee for a refinancing account held for the benefit of the Indenture Trustee and specified creditors. All proceeds arising from notes and borrowings related to refinancing shall be deposited to this refinancing account.

Debt refinancing may occur under the following scenarios:

- When original financing is incurred, the short end of the yield curve is more cost efficient than the long end, on a relative basis;
- The Fair Allocation Amount or readjustment amount is updated; and
- In line with the provisions of the Act, no Clean Energy Adjustments will be collected from specified consumers between July 1, 2017 and April 30, 2021, except in limited circumstances. Accordingly, any debt maturities during this period will need to be refinanced.

Refinancing decisions will be guided by the Trust's ability to secure cost efficient long-term financing from investors and the maximum principal repayment profile dictated by the fair allocation curve.

5. Cash Flow Requirements

The Trust's cash flow requirements to meet its contractual obligations include, but are not limited to, the following:

- Payment of taxes, if any
- Reimbursing the FSM for costs and expenditures outlined in sections 10.2 (3) and 10.13 (3) of the General Regulation and summarized under the heading *Fair Hydro Trust Costs and Expenditures*
- Interest and fees on all outstanding borrowings
- Scheduled principal repayments
- Deposits or transfers to reserve accounts required by the MTI and summarized under the heading *Financing Reserve and Capital Accounts*
- OPG's fees as FSM as summarized under the heading *Financial Services Manager's Fees*
- Termination payments to defaulting derivative counterparties, if applicable

Refer to Figure 5 in Section C, *Application of Recovery Amounts to Funding Obligations* for the cash flow receipts' payment priority.

6. Current Funding Options and related Terms and Conditions

To achieve cost efficiencies, the following funding vehicles could be utilized in either the Canadian or US markets (except for the subordinated debt), from time to time, depending on the financing requirement, as well as market capacity and relative pricing at the time of issuance:

- **Short Term**: asset-backed commercial paper (ABCP) conduit and revolving bank lines of credit in the Canadian market
- **Medium to Long-Term**: term ABS and privately placed debt securities in either the Canadian or US markets
- **Subordinated Debt**: to be provided by OPG

<u>Syndicated Short-Term Warehousing Facility</u>

Short-term notes will be issued by the Trust to fund short-term borrowing requirements. The amount outstanding will be periodically refinanced and repaid by long-term funding from the capital markets once the cumulative amount of the Investment Asset available to be purchased is approximately $300 million to $500 million. This warehouse facility is expected to be utilized on a monthly basis to fund the Investment Asset purchases from the IESO.

The Trust has **[**secured a warehouse facility agreement with a bank syndicate comprising of CIBC, RBC, and Goldman Sachs for $800 million under a 2-year committed term, which would be primarily funded through their ABCP conduit**]**.

Revolving Bank Lines of Credit

This type of funding option provides the Trust with a warehouse facility under which principal amounts can be advanced, repaid and again advanced during a committed revolving period. This bank funding option will be utilized when it is more cost effective than short-term notes.

Term ABS

ABS are notes that will be backed by the Trust's Investment Asset and issued under the MTI. The specific terms and conditions of each series, class or tranche of notes will be set forth in a supplemental indenture and, if applicable, a terms document authorizing that series, class or tranche.

To minimize financing costs, term ABS bullet bonds will be used rather than amortizing bonds, which require an additional premium by investors. The current intent is to issue term ABS notes in the 15 to 25 year term to fill out the yield curve based on the Fair Allocation Amount and investor demand.

Subordinated Debt

Concurrent with every issuance of senior debt by the Trust, it is expected that OPG will acquire subordinated debt in an amount not to exceed 49 percent of all outstanding debt of the Trust at any time. The subordination of OPG's debt investment plays an important credit enhancement role, which is expected to minimize the cost of senior debt tranches in the external market by garnering a higher rating through some differentiation. The subordinated debt will assume substantially all of the liquidity and deferral risk for the structure. Accordingly, the cash flow payment waterfall in Figure 5 reflects this subordination structure.

The credit rating for the subordinated debt will be dependent on the rating agency assessment and evaluation of the stress credit scenarios. It is expected that there will be a minimum of one rating category differential between each debt tranche.

The interest rate applicable to subordinated debt is expected to be the aggregate of:

- The applicable base rate, which is the relevant senior debt rate, plus
- The applicable spread, which represents the additional interest, in basis points, over the base rate that will apply to the relevant subordinated debt. This rate will be established by OPG through an annual survey of market spreads from a syndicate of banks.

The subordinated debt will maintain a minimum of one rating to allow for appropriate benchmarking/pricing. A simple average of the market spreads will determine the rate, excluding the highest and lowest rates in the survey sample. The terms of the subordinated debt will be finalized prior to the initial debt issuance.

For the short-term subordinated debt lending facility, the banking syndicate will provide OPG with short-term lending spreads for comparables on committed bank credit facilities on an annual basis (i.e. ratings based on a pricing grid). A simple average of the market spreads will determine the rate, excluding the highest and lowest rates in the survey sample.

The process will be consistent with the Protocol Agreement with the OFA.

7. Currency and Interest Rate Hedging Programs

As the FHP Program develops over time, the Trust will consider interest rate and currency swaps and other hedging instruments, as required. Refer to the Section C, *Risk Mitigation Strategies* for further details on hedging and other instruments that could be used by the Trust.

8. Fair Hydro Trust Costs and Expenditures

The costs and expenditures incurred by OPG as FSM on behalf of the Trust will be in accordance with sections 10.2 (3) and 10.13 (3) of the General Regulation as amended in November 2017.

Specifically, the costs and expenditures incurred by the FSM include, but are not limited to, the following:

1. Underwriters or selling agents for funding obligations.
2. Banking fees, including but not limited to structuring fees or work fees.
3. Fees of issuing and paying agents for funding obligations.
4. Fees of trustees.
5. Fees incurred in the preparation of financial statements, financial reports, compliance certificates and tax returns.
6. Fees of legal counsel.
7. Rating agency fees.
8. Filing or registration fees.
9. Direct costs of OPG for employees whose work consists exclusively of the provision of services to the Trust in relation to prescribed matters.
10. Costs and expenditures incurred on behalf of any financing entity in connection with OPG's duties under the Act in relation to the financing entity.
11. Costs and expenditures incurred in relation to a management agreement between OPG as FSM and any financing entity, where the agreement provides for the reimbursement of the costs and expenditures.

The costs and expenditures incurred directly by the Trust, as well as the fees of the FSM and the costs and expenditures incurred by the FSM on behalf of the Trust, are Finance Amounts that can be recovered by the Trust (as carrying costs) from the IESO until July 2021 and thereafter through Clean Energy Adjustments charged to specified consumers.

9. Interest Rates

As the FHP Program is expected to last until 2047, it is appropriate to assume that long-term debt rates are the primary components of the financing costs for the overall program. In estimating indicative interest rates for each tranche and debt type, the following key considerations and assumptions were utilized:

- The base case credit rating assumptions are as follows:
  - Target of "AAA" for Tranche A – Senior Debt,

   - "A" for Tranche B – Subordinated Debt which is dependent on the senior debt credit rating, and
   - "BBB" for Tranche C – Junior Subordinated Debt
- Using the projected Province of Ontario long bond rate of 4 percent plus a 25 basis points premium to reflect the securitization structure, the estimated indicative pricing over the life of Tranche A – Senior Debt is 4.25 percent
- For comparative purposes, the current pricing using the Province of Ontario long bond rate of 3.0 percent plus the same 25 basis points premium was included to reflect the current low interest rate environment
- A higher return on the subordinated debt is required to compensate for incremental risks assuming:
   - Rating agencies attribute a lower rating to the subordinated debt relative to the senior debt due to the lower priority in the cash flow waterfall (refer to Figure 5 in Section C, *Application of Recovery Amounts to Funding Obligations*)
   - Senior debt's rating needs to be credit enhanced to address collection and liquidity risks

To achieve cost efficiencies, the Trust was established with a tiered debt structure to achieve a higher credit rating for the senior debt and to maximize market capacity by accessing the AAA market to achieve cheaper financing costs overall. The following table summarizes the indicative pricing range by debt tranche:

Table 3: Indicative Pricing by Debt Tranche

Tranche and Debt Type	Risk Profile	Source	% of Total Funding Requirement	Rating Category Estimate	Current Pricing	Potential Rating Range	Price Based on Rating Range
Tranche A Senior Debt	Lowest Risk	Capital Market	51%	AAA	3.25%	AAA – AA	3.25% – 3.75%
Tranche B Subordinated Debt	Medium Risk	OPG via Province	39%	A	4.5%	AA – A	4.0% – 4.5%
Tranche C Junior Subordinated Debt	Highest Risk	OPG via Province	5%	BBB	5.5%	A – BBB	5.0% – 5.75%
		OPG via Capital Markets	5%				
Weighted Average					**4.0%**		**3.75% – 4.5%**

Debt pricing will be finalized at the time of the initial debt issuance.

10. Financing Reserve and Capital Accounts

Section 5(1) of the General Regulation stipulates that the Finance Amount shall include any amounts the Trust deposits into capital or finance reserve accounts as required under the governing documents of the funding obligations (i.e. the MTI). The accounts also act as a credit enhancement feature in support of the Trust borrowings. Any unused balance in the segregated trust accounts at the end of the term will be credited to specified consumers. Refer to Figure 5 in Section C, *Application of Recovery Amounts to Funding Obligations*, for the priority order of deposits into the reserve accounts.

The MTI between the Trust and the Indenture Trustee specifies the establishment and maintenance of the following key reserve accounts:

<u>Finance Reserve Accounts</u>

Program Cash Reserve Account

The Trust shall establish and maintain a Program Cash Reserve Account, a deposit account in the name of the Indenture Trustee with an eligible institution. This finance reserve account shall be under the control of the Indenture Trustee for the benefit of the Indenture Trustee and the specified creditors. Available collections not required to be paid to specified creditors at such time will be credited to a capital reserve account in accordance with the terms of any applicable funding obligation agreement. The funding obligation agreement for a series, class or tranche of funding obligations will specify whether such series, class or tranche has the benefit of a capital reserve account.

Series Finance Reserve Account

From time to time, the Trust may establish a Series Finance Reserve Account, a deposit account in the name of the Indenture Trustee with an eligible institution. This finance reserve account may be established for the purpose of allowing the Trust to reserve funds to pay finance charges (including, without limitation, interest and payments under derivative agreements) for a series of issuer funding obligations. Payments of available collections shall be credited to this account, to the extent that there is a requirement for such funds, in accordance with the terms of the applicable funding obligation agreement and the MTI. Each Series Finance Reserve Account shall be under the control of the Indenture Trustee for the benefit of the Indenture Trustee and the applicable specified creditors.

<u>Capital Reserve Account</u>

Series Capital Reserve Account

From time to time, the Trust may establish a Series Capital Reserve Account, a deposit account in the name of the Indenture Trustee with an eligible institution. This capital reserve account may be established for the sole purpose of allowing the Trust to accumulate funds to be used to make repayments in respect of funding obligations. Details of any period of accumulation and the amounts to be accumulated shall be specified in the related funding obligation agreement. Payments of available collections shall be credited to this account, to the extent that there is a requirement for such funds, in accordance with the terms of the applicable funding obligation agreement and the MTI. Each Series Capital Reserve Account shall be under the control of the Indenture Trustee for the benefit of the Indenture Trustee and the applicable specified creditors.

11. Indemnifications

The following forms of indemnities are expected to be issued for the FHP Program:

Change of Law Protection Agreement **[MONITOR]**

The Change of Law Protection Agreement provides bondholders a guarantee in the event of a protection event and acts as a credit enhancement for the Trust's senior debt. The guarantee will be triggered when:

i. the Province changes the Fair Hydro legislation/regulations or passes other legislation/regulation that materially adversely affects the ability of the Trust to service interest or principal payments on its debt, or

ii. the Act is declared invalid/unconstitutional.

Upon a protection event, the Province is required to either, at its election: (i) pay the specified claims consisting of all Finance Amounts, excluding ■ **[update],** owing by the Trust as they become due and payable, or (ii) assume the Trust's obligations as primary obligor, **[**in each case**]**, without acceleration of the specified claims.

Issuer Trustee

Each of the Issuer Trustee and its related parties will be indemnified out the trust property from and against all liabilities, obligations, losses, damages, penalties, taxes, claims, actions, investigations, proceedings, costs, expenses or disbursements of any kind arising out of, among other things, the declaration of trust or any other program agreement, the administration of the Trust's assets or the action or inaction of the Issuer Trustee's agents, except for its own fraud, willful misconduct, bad faith or negligence.

Limited Recourse

The obligation of the Trust to pay principal and interest on the funding obligations is subject to the allocation and payment provisions in the MTI and the applicable funding obligation agreement and limited to amounts available from the collateral. Neither the Indenture Trustee, OPG nor the Issuer Trustee in its individual capacity will be personally liable for the payment of the principal or interest on the notes or any other funding obligation, or for the Trust's covenants and agreements contained in the MTI.

12. Financial Services Manager's Fees

All fees charged by OPG to the Trust will be in accordance with the provisions of the General Regulation.

Subject to OEB approval, OPG is entitled to the following:

- For 2017, OPG will receive $3.1 million and an amount to cover up-front costs incurred between June 1 and December 31, 2017 by OPG on behalf of the Trust (e.g. legal fees, rating agency fees, trustee fees). The $3.1 million includes a $600,000 fee and $2.5 million to cover costs incurred prior to June 1, 2017. The expenses between June 1 and December 31, 2017 will also include direct costs of OPG employees who are dedicated exclusively to Fair Hydro matters.
- For January 2018 to March 2019, OPG will receive (i) a base fee equal to 7.5 basis points times the average monthly outstanding debt of the Trust, (ii) a variable fee that is calculated based on how the interest rate for external funding tranches for that period compare to forecast interest rates for the period (and which fee is limited to ± 2% of 5%

of the total external funding tranches issued in the period), and (iii) third-party expenses and direct employee costs of dedicated Fair Hydro employees.

- For April 2019 to March 2020, and every 12 month period thereafter, OPG will make submissions to the OEB on the base fee, variable fee and expenses. The base fee will be based on comparable fees charged by full-service managers of securitization vehicles (and other similar funds). The variable fee will be calculated in the same manner noted above, but with a refresh of forecast interest rates for the relevant period. For 2019 onward, the expenses will include direct employee costs of dedicated Fair Hydro employees only if the fees of comparable managers also include such direct costs.

A written confirmation from OPG's external auditor or another external auditor is required to accompany each submission to the OEB for the recovery of expenditures incurred by OPG on behalf of the Trust. The report shall confirm the accuracy of the costs and expenditures charged to the Trust, that such amounts were incurred by OPG, and the amounts were paid to third parties (with the exception of direct employee costs).

C. Other Considerations

1. Market

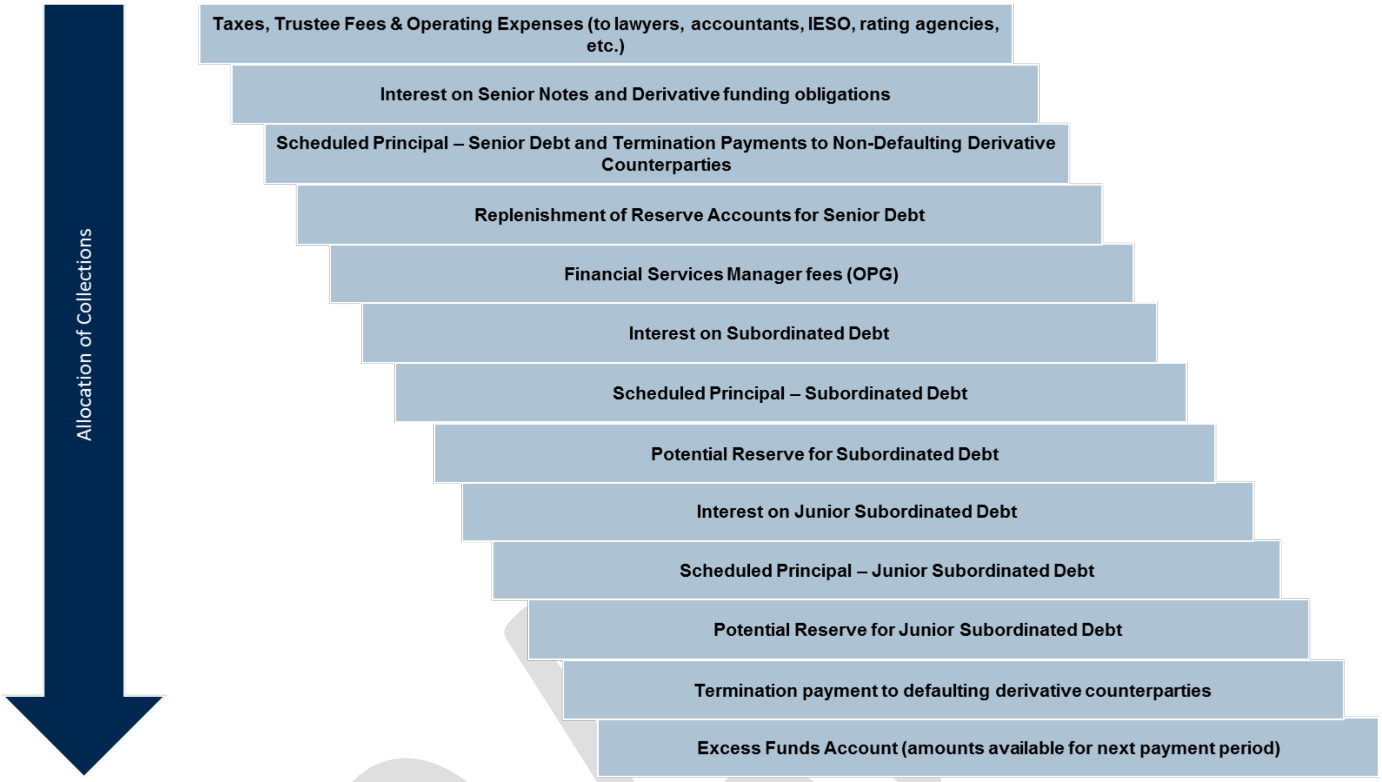
The FHP Program's financing platform was developed to allow for access to both the Canadian and US markets in order to have the best pricing and flexibility options. To the extent that the Canadian market has sufficient capacity and provides cost efficiency, priority will be given to the domestic market. However, there is no precedence in the Canadian market for term ABS notes longer than 10 years, nor the size of funding required by the FHP Program. Due to this, the ability to access the US market provides the program additional financing capacity in the event that the Canadian market cannot support the financing requirement. The FSM will make its decision on which market to access on a deal-by-deal basis.

For the initial debt issuance in 2017, it is anticipated that a term ABS funding will be sourced from the Canadian market as it is expected to be more cost efficient given current market conditions.

2. Application of Recovery Amounts to Funding Obligations

The MTI outlines the payment priorities for the Trust's receipt of cash flows. Figure 5 below summarizes the significant components of the waterfall.

Figure 5: Waterfall for Fair Hydro Trust Cash Collection



Payment Priorities

On each payment date, all amounts on deposit in the collection account will be paid out in the following order of priority:

1. to pay (A) all taxes exigible for which a governmental authority is given priority over the specified creditors under the laws of the applicable jurisdiction, and then (B) fees, expenses and reimbursements owing to the Issuer Trustee and the Indenture Trustee up to a maximum aggregate amount of ■ percent[1] of the outstanding principal amount of all funding obligations at such time;
2. to pay (A) interest, fees and other amounts owing in respect of senior debt and (B) amounts payable to derivative counterparties other than termination payments;
3. to pay (A) principal owing in respect of senior debt to the extent required to satisfy any payment of principal; and (B) termination payments owing to derivative counterparties where the derivative counterparty is not the defaulting party or the sole affected party;
4. to deposit or transfer to any reserve account in respect of senior debt, the amount required pursuant to the applicable funding obligation agreement;
5. to pay fees, expenses, reimbursement and indemnity amounts owing to OPG;
6. to pay interest, fees and other amounts owing in respect of subordinated debt;

[1] To be confirmed.

7. to pay principal owing in respect of subordinated debt to the extent required to satisfy any payment of principal;

8. to deposit or transfer to any reserve account related solely to subordinated debt the amount required pursuant to the applicable funding obligation agreement;

9. to pay interest, fees and other amounts owing in respect of junior subordinated debt;

10. to pay principal owing in respect of junior subordinated debt to the extent required to satisfy any payment of principal;

11. to deposit or transfer to any reserve account related solely to junior subordinated debt the amount required pursuant to the applicable funding obligation agreement;

12. to pay termination payments owing to derivative counterparties where the derivative counterparty is the defaulting party or the sole affected party; and

13. to be held in the collection account for distribution in the above order of priority on the next payment date; or (ii) after all funding obligations have been paid and discharged, and all other amounts have been paid in full, to pay to the Trust.

3. Risk Mitigation Strategies

Currency Risk

If the Canadian market cannot support the financing capacity of the FHP Program in the future and/or it is less cost efficient than the US market at the time of each subsequent debt issuance, the Trust will access the US market for long term financing.

Under this scenario, hedges will be considered to mitigate currency exposure. For the initial debt issuance in 2017, it is anticipated that funding will be sourced from the Canadian market only as it is expected to be more cost efficient and there is sufficient market capacity.

Interest Rate and Refinancing Risk

The FHP Program is expected to span over a 30-year period until 2047 with various series of notes expected to be issued at various maturity dates. Given the long-term timeline of the program, it is subject to interest rate and refinancing risk.

Interest rate hedges, including bond forwards and/or forward start interest rate swaps, will be considered in the future to mitigate potential interest rate risk and/or refinancing risk in a cost-efficient manner.

4. Tax Minimization Strategies

Beneficiary – FHP2017 Inc.

The majority unitholder and beneficiary of the Trust is exempt from federal tax under section 149 of the *Income Tax Act, Canada* and from Ontario tax under section 27 of the *Ontario Taxation Act, 2007*.

The beneficiary is subject to payments in lieu of federal and provincial income taxes (PILs). In order to minimize the tax associated with the Fair Hydro Plan, an exemption from PILs payable on income from the Trust was secured for the beneficiary **[MONITOR]**. This will result in a reduction in the income tax costs related to the Financing Plan.

Fair Hydro Trust

Trust income will be fully distributed to unitholders to ensure that there is no tax payable by the Trust.

D. Execution Plan for the Inaugural Debt Issuance

It is anticipated that the first term ABS notes will be issued in the 1st or 2nd week of December 2017 to purchase the accumulated regulatory assets from the IESO, expected to be approximately $1 billion at that time. Accordingly, the expected size of the senior debt tranche is approximately $500 million representing the 51 percent funding structure allocation from capital markets. In the event the term markets do not have sufficient capacity for the full required funding of $500 million, the warehouse facility will be utilized. OPG will purchase subordinated and junior subordinated debt issued by the Trust for approximately $500 million representing the remaining 49 percent of the total funding requirement.

Key Activities

The following table outlines the key activities required to execute the first purchase of the Investment Asset:

Activity	2017 Timeline
Rating Agencies' Assessment	End of November
Marketing & Roadshow	Last week of November – 1st week of December
Term Debt Closing & Funding	1st – 2nd week of December
Warehouse Facility Closing & Funding	2nd week of December