Q&A Responses

Q. What were the results of the Fair Hydro Trust's "second issuance" of long term debt?

On April 24, 2018, the Fair Hydro Trust (FHT) closed its second issuance of long-term debt in the capital markets. The issuance included $400 million of 20-year bonds with an interest rate of 3.52 per cent. According to Ontario Power Generation (OPG), this rate is 32 basis points over the provincial borrowing rate and 13 basis points below Ontario utilities.

As a result of the first and second issuances, a total of $900 million of senior notes has been issued by the FHT to date.

In accordance with OPG's Financing Plan, the FHT also issued subordinated debt at a rate of 3.83 per cent and junior subordinated debt at a rate of 4.21 percent. The weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated) is 3.71 per cent, compared to a weighted average of 3.53 per cent for the first issuance.

According to OPG, the weighted average interest rate for all long term debt as a result of the first and second issuances is currently 3.6 per cent.

Q. What were the results of the Fair Hydro Trust's "first issuance" of long term debt?

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 issuance was 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 initial series of long term debt (i.e., senior, subordinated and junior subordinated).

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Q. How do the interest rates 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, including 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 analysis 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.