ONTARIO POWER GENERATION (OPG) FINANCIAL SERVICES MANAGER REPORT

ISSUE:

- On March 28, 2018, OPG provided Minister Thibeault with its Financial Services Manager (FSM) Report for 2017, as required under Ontario Regulation 206/17 (General), made under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA).

KEY INFORMATION:

- OPG is required to provide the Minister with annual FSM reports regarding its affairs during each fiscal year, in accordance with the Ontario Fair Hydro Plan regulations.

- The report summarizes OPG's activities undertaken in its role as FSM in 2017, including:

    The structuring of the GA refinancing program as set out in its Financing Plan; and

    Incurred principal and interest rates for the initial short-term debt issuance in December 2017.

- The report also summarizes key events that occurred subsequent to December 31, 2017 (i.e., the issuance of long-term debt in February 2018) and notes OPG's applications to the Ontario Energy Board for approval of its fees as FSM.

- The report is consistent with OPG's Financing Plan and actual debt amounts communicated to the Ministry.

BACKGROUND:

- Under Subsections 14(3) and 14(4) of O. Reg. 206/17, for the fiscal year commencing in 2017, the FSM is required to provide a report on a date specified by the Minister, on or after the 30th day following the end of the fiscal year.

    Note: The Minister did not specify a date for the report prior to OPG's submission.

    OPG's fiscal year-end is December 31; accordingly, the date the report was submitted is consistent with the 30-day requirement relative to OPG's fiscal year. O. Reg. 206/17 is not explicit regarding whether the timing of the FSM report should be based on a government or OPG fiscal year.

In subsequent years, the report is to be provided to the Minister no later than 90 days following the end of each fiscal year, without a requirement for the Minister to specify a date.

- OPG's FSM report summarizes the activities of the FSM in the 2017 calendar year, including:

    The establishment of the Fair Hydro Trust (FHT) and appointment of the Issuer Trustee (Computershare Trust Company of Canada), Indenture Trustee (BNY Trust Company of Canada), and OPG as agent of the FHT;

    The financing structure as laid out in OPG's Financing Plan, including the utilization of short-term warehouse facilities to fund purchases of the Investment Asset, periodically refinanced through the issuance of long-term debt;

    The major program agreements governing the issuance of debt, including the Change of Law Protection Agreement between the Province, OPG, Computershare and BNY, and the Change of Law Process Agreement between the Province and OPG.

    - **Note:** The Protection and Process Agreements govern the limited Provincial Guarantee, including procedural requirements between OPG and the Province with respect to the issuance of debt.

    OPG's applications to the Ontario Energy Board (OEB) for review of its FSM fees for the 2017 calendar year and for the period from January 1, 2018 – March 31, 2019.

    - **Note:** Under the OFHPA, OPG is permitted to charge fees in its role as FSM. OPG was required to submit applications to the OEB for 2017 and the subsequent 15-month period by February 28, 2018 and December 15, 2017, respectively. The earlier submission date for the 2018-2019 fee reflects the forecast component in the calculation of fees from 2018 onwards.

    - In accordance with O. Reg. 206/17, OPG's carrying costs (e.g., interest and fees) are recovered from IESO and included as part of the regulatory asset during the four-year inflationary cap period.

- The report summarizes FHT debt issued as at December 31, 2017, namely the utilization of the short-term warehouse facilities to fund the initial purchase of the Investment Asset on December 21, 2017 as follows:

	Debt ($M)	Weighted Average Interest Rates*
Senior (51%)	601	2.32%
Subordinated (39%)	460	2.42%
Junior Subordinated (10%)	118	2.42%
Total	1,179	N/A

*Ministry calculations indicate an overall weighted average interest rate of 2.37%.

- The report also summarizes the subsequent issuance of long-term debt on February 9, 2018 as follows:

	Debt ($M)	Interest Rates**
Senior (51%)	500	3.36%
Subordinated (39%)	382	3.64%
Junior Subordinated (10%)	98	3.96%
Total	980	N/A

**Ministry calculations indicate an overall weighted average interest rate of 3.53%.

- **Note:** Proceeds from the issuance of long-term debt in February were applied to reduce the balance of short-term debt. While not covered in the report, OPG subsequently drew upon the warehouse facilities again on March 22, 2018 in advance of a second Investment Asset purchase. As a result, the current outstanding balance of short-term debt, long-term debt and total debt, is as follows:

	Short-term Debt ($M)	Long-Term Debt ($M)	Total ($M)
Senior (51%)	336	500	836
Subordinated (39%)	257	382	639
Junior Subordinated (10%)	66	98	164
Total	659	980	1,639

- The report is consistent with OPG's Financing Plan and actual debt amounts communicated to the Ministry.