OPG Participation in Ontario's Fair Hydro Plan
COMMUNICATIONS

Background

The *Ontario Fair Hydro Plan Act, 2017* (the Act) received Royal Assent on June 1, 2017. Ontario's Fair Hydro Plan (the Plan) is comprised of a series of initiatives, including the refinancing of a portion of Global Adjustment (GA). The aim of GA refinancing is to ensure the costs of investments in the electricity system are allocated fairly across the generations of consumers who will benefit from them. The program has provided an immediate reduction in electricity bills for residential, farm, small businesses and other eligible consumers by spreading costs over a longer time period.

OPG is a key player in this Plan. The legislation appointed OPG as the Financial Services Manager (FSM) responsible for developing financing plans and managing the Fair Hydro Trust (the Trust), which manages the debt obligations associated with GA refinancing. Regulations made under the Act provide details on the structural, operational and financial elements required to implement the Plan. OPG's Board of Directors has approved OPG's involvement with the Plan on commercial terms. OPG has established the Fair Hydro Trust (the Trust) as the financing entity contemplated by the Act. The Trust is responsible for financing a portion of GA payments . The Trust is structured as a ring-fenced, special purpose vehicle that operates outside OPG's regular operations. Through this ownership and OPG's control over the key activities of the Trust, the Company will consolidate the financial results of the Trust in its financial statements.

Commented [A1]: punctuation

Under the GA refinancing program, the deferred GA amounts are recorded by the Independent Electricity System Operator (IESO) as a regulatory asset. The Trust will periodically purchase the asset from the IESO. The first purchase of the regulatory asset took place in the 4th quarter of 2017.

In order for the Trust to finance the purchases, it will incur senior debt from capital markets and subordinated debt from OPG. OPG provided 44 per cent of the total funding requirement through an equity injection from the Province and 5 per cent from debt that was issued in October 2017. This debt consists of $500 million of senior notes payable with a ten-year term and an effective rate of 3.32 per cent.
As of July 1, 2017, electricity bills (based on a typical Ontario customer) were reduced by a total of 25 per cent including the 8 per cent rebate equivalent to the Provincial portion of the HST. Increases will be held to inflation for four years.

Communications Objectives

- Clearly define OPG's role as the Financial Services Manager (FSM), and Government's role as the Policy Centre.
- Enhance OPG's brand by demonstrating it has the financial strength and sophistication to execute a successful debt offering.
- Set the stage so that going forward, each subsequent debt offering will be business as usual.

Communications Approach

- OPG's CFO will provide a technical briefing to select business and Queen's Park gallery reporters on February 6 or 7, 2018 (TBC depending on final pricing date) after Bloomberg issues their deal summary

- It is recommended the technical briefing be held in association with this first offering only, to ensure reporters understand the process, the final debt rating, and any technical matters related to this first offering.
- Subsequent offerings will proceed business as usual, with public and media notification provided via the news releases issued by the rating agencies upon close of each tranche and subsequently reported in OPG's quarterly financial statements.
- OPG will continue to respond to media enquiries on the matter as required.

Timeline

September 12, 2017 – OPG issues $2 billion prospectus.

October 2017 – OPG completes successful issuance of $500 million in ten-year notes.

December 2017 – Fair Hydro Trust establishes and first tranche of debt transferred from IESO.

January 29, 2018 – OPG begins investors' roadshow, looking for buyers of initial FHP debt offering.

February 2, 2018 – Investors' roadshow ends.

February [5 or 6], 2018 TBC – OPG invites media to technical briefing through media advisory.

February 6, 2018 - Opens bids for buyers.

February [6 Or 7] 2018 ~10 am- Bids close

February [6 or 7], 2018 ~XX am – Buyers notified if successful bidders, price / interest rate established.

February [6 or 7], 2018 ~11am– Bloomberg posts stats on deal

February [6 or 7], 2018 ~mid-day – Briefing at 700 University on first round of debt offering.

February 9, 2018 – Final deals close. Rating agencies provide final rating for the debt by news release over newswire and on SEDAR.

Q2 2018 – Second round of debt offering begins.

Key Messages

- This first debt offering for the Fair Hydro Trust was priced at the lowest cost of financing in the Canadian energy sector.
- [Two] green funds have invested in this first round of financing. They recognized the role this fund plays in financing green energy projects and keeping Ontario as one of the greenest electricity sectors in North America.
- OPG is committed that the Fair Hydro Trust is managed in the most efficient and transparent way and will publicly report on the Trust through its quarterly financial statements.

Commented [A2]: OPG: is this factual correct? What are the comparison that OPG is using to make this statement?

Supplementary Messages

OPG's Role in Ontario's Fair Hydro Plan

- The Ontario government asked OPG to participate in Ontario's Fair Hydro Plan (OFHP) which aims to reallocate the costs of clean energy initiatives over a longer time period and provide immediate relief to specified consumers.

- To implement the financing program, the Fair Hydro Trust was established to finance the shortfall resulting from the rate reductions, and other financing costs as mandated by the legislation.
- OPG was appointed by the legislation to be the Financial Services Manager of the Fair Hydro Trust, in part, due to its in-depth experience in the Ontario energy market system, capital markets, and fund management.
    - In addition to executing more than $2billion in multiple project financing initiatives over the past number of years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.
    - OPG currently manages approximately $22 billion in nuclear funds through the Decommissioning Segregated Fund and the Used Fuel Segregated Fund, and $15 billion in pension funds.
    - OPG has developed solid investor relationships and has a large investor base in the structured finance space for financing Ontario's Fair Hydro Plan (OFHP) initiative.

Management Fees

- Credit rating agencies expect OPG to manage this Trust as a commercial entity.
  The Fair Hydro Act provides for OPG to collect a management fee for the activities required to manage the financing, issue new debt, process financing costs, arrange for financing services (legal, rating agency, trustees), report on activities and positions, prepare documents required by legislation and regulation, and other duties as required by the documents establishing the trust and requests by external entities.
- The formula for determining the management fee is set out by regulation.
- The management fee will be approved by the Ontario Energy Board (2017 onward), and benchmarked with other companies (starting in 2019).
- Because OPG is owned by the Province, any additional net income from management fees and interest flow through to all Ontarians.

Fair Hydro Trust and Debt Financing

- OPG is committed to ensuring that the financing program is executed in the most efficient and transparent manner.
    - The Fair Hydro Trust was established December 20, 2017. OPG worked closely with outside advisors to ensure this new entity was structured so that it functions efficiently, but does not impact OPG's existing operations.
    - By mid-December 2017, $1.2 billion in Global Adjustment (GA) payments had been deferred under Ontario's Fair Hydro Plan (OFHP) and held by IESO as a regulatory asset. OPG's Fair Hydro Trust purchased this asset in December 2017, and the purchase was financed as follows:
        - Borrowing by the Trust through a bank syndicate in December (51 per cent), of which $ x million was refinanced on Feb. [X] 2018 by senior debt from capital markets;
        - Remainder is being financed by OPG
    - In subsequent months OPG's Fair Hydro Trust will purchase subsequent assets from IESO (i.e., approximately $200 million per month) and raise any required financing.

- The next debt offering is expected to be in Q2 2018.

Supporting messages

- We remain the province's lowest cost electricity generator, producing half of the province's power at a cost that's about 40 per cent less than other generators.
- OPG is a natural to manage this long-term, major financial transaction as it has a proven track record in this area, with extensive experience and expertise in the electricity market, capital markets, regulation, and fund management.

Tactics

Tactic	Assigned Task	Timelines
Deck for Technical Briefing	Neal / Brayden to work with John Lee / Lubna to fill in blanks and finalize.	Feb 5 to Ministry Feb. 6 – 7 to finalize presentation with all available information.
Q&A on Fair Hydro Trust and related issues	Neal / Brayden to work with John Lee / Lubna on draft, Janice to share with Jennifer, Ken and others as appropriate for final approval.	Feb. 2 for first draft with blanks TBC when information is known
Key Messages	Neal / Brayden to update existing Key Messages and add additional messages for Financial and Policy-related matters for approval (sign off by Janice, Jennifer, Ken)	Feb. 2 for first draft of KMs with fill in the blanks for some data TBC when known.

Technical briefing	
Proposed Date and Time	**Location**
February [6 or 7], 2018 - mid-day **TBC**	OPG Headquarters, 700 University, CR2 boardroom **TBC**
Description	
OPG CFO Ken Hartwick and OPG Treasurer John Lee provide an overview of the Fair Hydro Plan trust and the results of the first public debt offering.	

Speakers & Attendees
Reporters invited: • Geoff Zochodne, Financial Post • Maciej Onoszko, Bloomberg • Shawn McCarthy, Globe and Mail • David Reeley, Ottawa Citizen • Queen's Park Press Gallery **OPG staff speaking:** • Ken Hartwick • John Lee **Moderator:** • Neal Kelly

Questions & Answers

Q: Why is OPG doing this?

The Ontario government asked us to play a role in the Fair Hydro Plan by setting up and managing a trust to implement the Global Adjustment (GA) Refinancing component.

We were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large monetary funds.

Q: Is this the right thing to do? Aren't you just kicking the problem down the road?

We are here today to discuss the latest financial transactions related to the Fair Hydro Trust. Any policy related questions are best answered by the Ministry of Energy.

Q: Will you make money on this?

OPG will be providing some funding in support of the program. It is anticipated that the majority of the funding will be provided in the public debt markets. OPG returns will be commercial and consistent with the rest of the program funding structure. OPG will also receive fees for managing the entity.

The financial results will be reported transparently in OPG's quarterly financial results.

Remember that OPG is owned by the province and the people of Ontario. Any profits made by OPG are positively reflected in the Government's financial position.

Q: What costs do OPG's management fee recover?

The Fair Hydro Act provides for OPG to collect a management fee. The Management fee is for the activities required to manage the financing, issue new debt, process financing costs, arrange for financing services (legal, rating agency, trustees), report on activities and positions, prepare documents required by legislation and regulation, and other duties as required by the documents establishing the trust and requests by external entities. The formula is set out by regulation, and the fee is approved by the OEB.

Q: Is OPG profiting from managing this fund?

Credit Rating companies expect OPG to manage this Trust as a commercial entity. OPG will be paid a management fee for this service, which will be approved by the OEB. Remember that OPG is owned by the province and the people of Ontario. Any profits made by OPG are positively reflected in the Government's financial position.

Q: Where will the money go for the management fee?

OPG is a commercial entity and the management fee reflects the actual costs associated with borrowing by the Fair Hydro Trust. Remember that OPG is owned by the province and the people of Ontario. Any profits made by OPG are positively reflected in the Government's financial position.

Q: Doesn't this mean that the province is profiting off the backs of ratepayers?

Financing the Global Adjustment through the electricity system vs. within government is a policy decision made by government to ensure that the costs are born by the ratepayers who received the benefits of the investments. OPG has a relatively low cost of capital and expertise in debt financing in the financial markets.

Q: Critics of the Fair Hydro Plan say the government is hiding the true cost of its debt on OPG's balance sheet.

Ontario's Fair Hydro Plan was a policy decision made by government, and any questions regarding that decision are best answered by the Ministry of Energy. The financial results of the Fair Hydro Trust will be reported separately in OPG's quarterly financial reports, so the costs will be disclosed publicly. OPG was asked to manage the Fair Hydro Trust as a commercial entity because of its relatively low cost of capital and expertise in financial markets.

Q: What is the role of OEB in Ontario's Fair Hydro Plan?

Ontario Energy Board (OEB) will review and approve the management fees within guidelines established by regulation. Questions about the other responsibilities of the OEB under the OFHP should be directed to the OEB or government.

Q: How is the Trust arms-length/ring fenced from OPG's operations?

The Trust will incur the debt independently. Debtholders will only have claim on the assets of the trust which will consist of a claim on consumers to pay the charge established by legislation

Q: Is there a separate organization administering the fund or will they be OPG employees?

OPG provides various services to the Trust as the Financial Services Manager, including some Administrative Services. Some services are provided by external organizations (eg. Trust company).

Q: How will the Trust report to the board or executive team?

Activities of the Trust are determined by legislation, regulation and various contracts. A Management Oversight Committee consisting of three senior executives (CEO, CFO & CAO) will approve / oversee key aspects of the trust's activities.

Q: How will the funds transfer to the Trust from OPG?

Each time the Trust acquires an asset it obtains the required funds by issuing debt in the capital markets and borrowing from OPG. OPG provides the funds in line with the funding from the capital markets so that the Trust can provide those funds to IESO which then transfers to the trust the right to collect from future consumers.

Q: Are there benefits to OPG being able to borrow in capital markets?

Yes absolutely. Borrowing in capital markets brings a high level of expertise and discipline to OPG business operations.

Q: What interest rate is OPG receiving for the subordinated debt?

FINANCE PLEASE PROVIDE ANSWER

Q: Why is OPG receiving higher interest rates than institutional investors?

OPG receives higher rates because it is investing in subordinated debt, which carries higher credit risk and a lower credit rating. [NTD: John/Ken can expand if additional questions are raised].