Letter to OPG

Mr. Bernard Lord
Board Chair
Ontario Power Generation Inc.
700 University Avenue, 19th Floor
Toronto, ON M5G 1X6

Dear Mr. Lord:

Thank you for your letter of April 18, 2017. As OPG works toward developing a plan for financing mechanisms that could achieve the objective set out the Ontario Fair Hydro Plan of refinancing the global adjustment, I would like to update you on recent developments.

I am pleased to advise that yesterday I stood in the Legislature to introduce the *Fair Hydro Act, 2017* for first reading. Prior to first reading, I had the privilege of recommending the bill to Treasury Board and Cabinet for approval.

The legislation was designed to achieve accounting, legal and financeability outcomes. I would like to highlight certain key elements for you.

To achieve OPG's accounting purposes and financial position, in designing the legislation, the Ministry accepted OPG's position that the Minister will not be able to remove OPG as Financial Services Manager. The legislation would enable a structure that would give OPG extensive control, including the ability to earn a return and take on risk. These objectives also informed the role that has been crafted for the Ontario Energy Board in calculating rates based on inputs provided by the Financial Services Manager.

We have addressed legal imperatives of the Ontario Fair Hydro Plan by creating a mechanism to take into account the need to align the costs attributable to future rate payers with benefits to those same future ratepayers. Through the fair allocation, the government intends to ensure that the costs of clean energy initiatives undertaken by the government are allocated fairly amongst future generations in proportion to the benefit that they receive. In this way, the fair allocation will effectively constrain the debt that future consumers must bear. OPG, as the proposed Financial Services Manager, and in establishing special purpose entities to take on financing obligations, will be obliged to undertake its financing activities mindful of the fair allocation.

We have appreciated the advice of your financial advisors that the Province will be expected to provide guarantees to investors that would be triggered if the Act, if enacted, is amended or revoked and, in the event that the that the Act is found by a court to be beyond the authority of the legislature. The legislation, if passed, would enable the Province to provide guarantees and indemnities of debts, obligations, securities or undertakings associated with investment interests. I anticipate taking the guarantees identified by your advisors forward for approval by the Lieutenant Governor in Council in due course, as contemplated by the bill.

The introduction of the Ontario Fair Hydro Act, 2017 is only one element in the implementation of Ontario’s Fair Hydro Plan. In conjunction with the bill, I have signed a shareholder resolution to allow for an amendment to OPG’s Articles of Amalgamation that will facilitate OPG’s debt offerings. In addition, Ministry staff is working to provide the assurances referred to in your letter that your board requires. Ministry staff will also further engage OPG in work on regulations that will provide some of the detail required to proceed if the bill is passed.

Thank you to your team and advisors who contributed to the development of the legislation. They made significant contributions toward achieving the balance of accounting, legal and finaceability that is required in order to implement the Ontario Fair Hydro Plan.

Thank you also for the support of the Board and the CEO through this process. I look forward to receiving your plan by June 1, 2017.