RE: Meeting | OFHP Implementation

From: "Nelms, Scott (MOF)" <scott.nelms@ontario.ca>
To: "Nguyen, Marianne (MOF)" <marianne.nguyen@ontario.ca>
Date: Sun, 16 Apr 2017 16:37:14 -0400

Hi Marianne,

Sorry for the delayed response. Keep in mind this is my take on key issues. Also note that the legislation is being turned over the weekend, so this list will likely evolve.

At a high level, there are a number of areas that have shifted as we move from concept to legislation. Most of these changes are designed to meet key objectives (accounting, financeability and constitution) while ensuring a responsible structure that mitigates costs to ratepayers. Please also note that legislation is the first step. Regulations and Contracts will layer on additional details that have yet to be defined.

Keu elements:

- Fair Allocation Plan: this plan is designed to get to the heart of the ConLaw analysis and links up the curve of ratepayer deferrals / recoveries over time with the underlying value of the generation contracts. Currently the proposal is to have this set (I believe in regulation based on principles in legislation) by the government. It could be changed by the Minister of Energy, with advice from the OPG SPV and IESO. This is anticipated to occur infrequently and only in response to significant changes to external factors (interest rates, electricity demand etc.). This plan would set a notional upper bound for the Financing Plan (described next).
- Financing Plan: this plan is established by the OPG SPV / Trust. The Fair Allocation Plan (FAP) acts as the upper bound for the Financing Plan. The Financing plan attempts to link up financing realities with the aspirational assumptions in the FAP. This plan would be updated regularly (perhaps every 6 months) as inputs and realities on the ground evolve.
- No limits on recoverability: this is a key point for the dealers (CIBC, RBC, Goldman) who will be selling bonds to investors. They suggest there can be no limits on the OPG SPV and in turn IESO recovering any and all costs in all circumstances from electricity ratepayers. This is imperative to ensure bonds issued by the Trust attain as high a credit rating as possible (AAA is the current objective – this will help to reduce interest costs and increase access to the broadest possible investor base). Some examples of what this mean include:
    - The FAP and Financing Plan cannot in any way limit repayment of outstanding bonds. In the event there is any inconsistency between either of these plans and the ability to repay principle or interest on outstanding issuances, bondholder rights trump both plans. In addition, going forward the plans must take into account those existing liabilities.
    - No 10% cap on bill increases or 10% limit on this charge relative to total bills (these are objectives that OPG will attempt to work toward in creating a reasonable Financing Plan, but in the event of surprises in the market, ratepayers will be responsible for covering all costs);
    - Direct link through IESO and LDCs to the end customer. Again, for credit rating purposes, the end customer must be liable for this charge and the OPG SPV must be able to reach through the intermediaries if necessary, for collection purposes. Otherwise the rating agencies would need to look at the credit strength of the intermediaries including 70 LDCs. In practice this is not how money will flow, it is only a backstop in the event of bankruptcies or fundamental changes to the system. This is different from current mechanisms in place in the sector;
    - True-up mechanisms are needed that ensure any shortfalls are recovered from all

ratepayers (in the form of higher rates) in future periods. The form of this true-up has been the focus of considerable attention.

- IESO's role: IESO has a role in establishing the regulatory asset, selling it to OPG SPV and then acting as an agent for collection purposes. IESO cannot be left with any principle risk once the assets are sold or accounting objectives would not be met.
- LDC role: local distributors are not in any way involved in these discussions and are not in a position to take on incremental risk. This comes back to an earlier point – risk must be assumed by ratepayers. As with IESO, LDCs will continue to act as collection agents.
- OEB role: in the current construct, OEB will have a "light touch role" using its administrative powers to deem IESO's ongoing shortfall to be a regulatory asset. There is general agreement that to meet financing requirements, OEB cannot have a substantive role in reviewing the structure. This is a key point that accountants will need to consider to ensure this meets the test for creation of an asset. Later in the process there are a few other potential touch points for the OEB (e.g. reviewing the books of the Trust) both those have yet to be determined.
- Provincial guarantees: This is a very important point for the dealers and also for accounting. This has yet to be finalized, but the Province's intention is to only provide 2 limited, conditional guarantees:
    - In the event the Province takes an action (changes legislation) that has an adverse impact on bondholder interests
    - In the event the structure is deemed unconstitutional

Unrelated to GA Financing, please note that ENE continues to monitor rate applications for the 8 LDCs covered under the new RRRP. Increases in rates for those LDCs may result in a fiscal pressure to the Province, so we will continue to keep a close eye on those. For example, Hydro One last Friday filed a 5 year Dx application with the OEB. ENE is reviewing to determine how it aligns with assumptions included in the OFHP.

Scott

From: Nguyen, Marianne (MOF)
Sent: April-13-17 3:42 PM
To: Nelms, Scott (MOF)
Subject: FW: Meeting | OFHP Implementation

Do you know what, if any, major changes Andrew may be referring to?

From: Teliszewsky, Andrew (ENERGY)
Sent: April-13-17 3:37 PM
To: Nguyen, Marianne (MOF)
Subject: Re: Meeting | OFHP Implementation

Okay. This means that your Ministry is 100% comfortable with the decisions now being made on the legislation and the fiscal impacts.

From: Nguyen, Marianne (MOF)
Sent: Thursday, April 13, 2017 3:35 PM
To: Teliszewsky, Andrew (ENERGY)
Subject: RE: Meeting | OFHP Implementation

Sorry, Andrew. I won't be able to make it as I'm in final budget sign offs.

From: Teliszewsky, Andrew (ENERGY)

Sent: April-13-17 3:35 PM
To: Forgione, Andrew (OPO); Bossin, Bryan (OPO); Moore, Brynne (MOF); Campbell, David (ENERGY); Pichelli, Jason (TBS); Nguyen, Marianne (MOF); Whittington, Matt (ENERGY); Donelson, Philip (OPO); Baig, Saad (MOF)
Subject: Meeting | OFHP Implementation

Hi.

We are in Energy "Communications Boardroom".
Its' opposite side of the building.

Please advise if we should wait for you / are you attending, please?

Atel/

Organizer: Teliszewsky, Andrew (ENERGY)
When: 3:30 PM - 4:15 PM April 13, 2017
Subject: Meeting | OFHP Implementation
Location: Communications Boardroom, 900 Bay Street, Hearst Block, 4th Floor