

Request for Approval
Pursuant to Section 28 of the *Financial Administration Act* (Ontario)

1. MINISTRY REQUEST

On March 2, 2017, the Premier announced Ontario's Fair Hydro Plan (the "ONFHP"), under which the government proposes to take steps to lower electricity bills on an after-tax basis by 25 per cent for a typical residential customer relative to what those bills would otherwise have been without the ONFHP. This proposed 25 per cent rate relief measure would be inclusive of the 8 per cent rebate that is already in effect under the *Ontario Rebate for Electricity Consumers Act, 2016* and the savings that are anticipated to result from the proposed shifting of the Ontario Electricity Support Program ("OESP") and the Rural or Remote Rate Protection program ("RRRP") costs from ratepayers to provincial revenues. Changes to the Global Adjustment ("GA") are also proposed to be a component of the 25 per cent rate relief under the ONFHP.

On June 1, 2017, Bill 132, received royal assent, which marked the coming into force of the *Ontario Fair Hydro Plan Act, 2017* (the "Act"). The Act enables the implementation of the ONFHP. The implementation of the ONFHP will require the participation of the Ontario Power Generation ("OPG") and the Independent Electricity System Operator ("IESO") among other government entities. Both the OPG and the IESO have each requested an indemnity covering their respective corporations, subsidiaries (in the case of OPG), and respective directors, officers and employees in relation to their respective roles in carrying out the implementation of the ONFHP.

The Ministry is seeking the approval pursuant to section 28 of the *Financial Administration Act* (Ontario) to provide these indemnities, in the forms attached as Appendix "A" and Appendix "B" (collectively the "Indemnities" and individually the "Indemnity"), on behalf of the Crown to the OPG and IESO, respectively.

Timing:

Approval is sought by June 13, 2017. The Indemnities are required in conjunction with the coming into force of the Act.

Commented [VC(1): To confirm the date requirement

2. RECOMMENDATION

Approve the giving of the Indemnities to OPG and IESO effective as of the date upon which the Act was passed.

Commented [VC(2): Message sent to John M – to discuss with Kim

Commented [VC(3): Why as of this date?

3. BACKGROUND

OPG – Role in Implementation of Ontario's Fair Hydro Plan (ONFHP)

OPG will play a central role in the implementation of the ONFHP, particularly with respect to the implementation of the GA refinancing component of the ONFHP. As part of the ONFHP, it

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was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This would result in a deferred GA amount that a special purpose entity created by OPG (i.e. a financing entity) is expected to finance. Risks associated with carrying out this role would fall outside of the scope of OPG's usual business/operations risks and would arise solely due to the OPG's role in implementation of the ONFHP. Examples of these risks include, without limitation:

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- liability as a promoter under Canadian securities laws (or the equivalent, if any, under other applicable securities laws);
- secondary market liability under Canadian and/or other applicable securities laws;
- liability the signatories to the prospectuses will have (i.e., the individuals signing the prospectus); and
- liability of OPG as the Financial Services Manager under any of the transaction agreements (e.g., the Financial Services Management Agreement, the Administration Agreement, the MSSA, the Master Trust Indenture and any Supplemental Indentures).

As a result, pre-existing indemnities and protections do not adequately protect OPG, its subsidiaries and each of their respective directors, officers and employees as explained further below.

Providing the requested Indemnity to OPG would help facilitate OPG undertaking its role with respect to the implementation of the ONFHP.

IESO – Role in Implementation of ONFHP

The Proposed Legislation, if passed would impose certain obligations and requirements on IESO to carry out various activities in relation to the implementation of the ONFHP such as the deferral of costs related to the GA, the creation of a regulatory asset in relation to the GA financing component of the ONFHP, the conveyance of that asset to OPG's financing entity and providing a servicing role in recovering OPG's funding costs from future ratepayers. IESO may also be required to play a role in potential securities offerings of OPG's financing entity. If so, this may come with heightened exposure to liability for the IESO, particularly for offerings into the US market. IESO has expressed concern that all of this drives an increased risk of liability to the IESO, its directors, officers and employees, which is over and above typical operations risks and arises solely due to the ONFHP.

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Providing the requested Indemnity would help facilitate the IESO's undertaking of the activities requested by the Minister in order to facilitate the implementation of the ONFHP.

4. ANALYSIS SUPPORTING RECOMMENDATION

(a) Why the Indemnities are being sought?

- (i) *Indemnities are required to facilitate IESO and OPG in carrying out their respective roles in implementing the ONFHP*

The provision of the Indemnities to the IESO, OPG, OPG's subsidiaries, and each of their respective directors, officers and employees is required in order to facilitate the carrying out of implementation of the ONFHP. Both OPG and the IESO are anticipated to carry out activities that fall outside the scope of their typical business activities and corporate mandate which existing indemnities would address. This creates the risk that such activities could be perceived as not being carried out in "good faith" or in the best interest of the corporation thereby exposing OPG and/or the IESO to increased liability (statutory protections from liability only extend to "good faith acts"). In addition the statutory protections do not indemnify for costs relating to defending a claim. This is further described in section (ii) below. Examples of specific risks to OPG include, without limitation:

- liability as a promoter under Canadian securities laws (or the equivalent, if any, under other applicable securities laws);
- secondary market liability under Canadian and/or other applicable securities laws;
- liability that the signatories to the prospectuses will have (i.e., the individuals signing the prospectus); and
- liability of OPG as the Financial Services Manager under any of the transaction agreements (e.g., the Financial Services Management Agreement, the Administration Agreement, the MSSA, the Master Trust Indenture and any Supplemental Indentures).

Examples of specific risks to the IESO include without limitation,

- liability for its role in potential securities offerings of OPG's financing entity. This may come with heightened exposure to liability for the IESO, particularly for offerings into the U.S. market. It is not clear whether the statutory protections would apply federally or in the U.S. context. If they would not extend to a U.S. claim, for example, it would support the need for a separate indemnity for the IESO.

If the indemnities are not provided, this could impact OPG and the IESO's willingness to undertake such activities jeopardizing the successful implementation of the ONFHP.

Both the IESO and OPG have specifically asked for these Indemnities in order to allow them to carry out their roles in implementing the ONFHP. Providing OPG and the IESO with the requested Indemnities will provide them with assurance against liability in order to allow them to comprehensively carry out their respective roles in the successful implementation of the ONFHP.

To the extent that a claim would be paid under any other indemnity provided to OPG or IESO by the Province, or provided by OPG and IESO to any of its subsidiaries (in the case of OPG),

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Commented [VC(7)]: What does this mean?

Commented [VC(8)]: OPG is being compensated for taking on this role – how does that factor into the indemnity?

Commented [VC(9)]: What role is expected?

Commented [VC(10)]: Why it is not clear?

agents (in the case of the IESO), directors, officers and employees, these Indemnities would not apply. Language to address any possible duplication is included in the attached Indemnities.

Existing indemnities previously provided by the Province to OPG have been limited to specific directives provided to OPG by the Province (e.g., in connection with the Bruce Lease). Accordingly, the scope of the existing indemnities provided by the Province would not cover the ONFHP. The IESO does not have any other indemnity from the Province.

- (ii) *Statutory Immunity does not preclude a person from bringing an action or other civil proceeding*

Subsection 19(1) of the *Electricity Act, 1998* provides IESO directors, officers and employees with the following protection from liability:

“No action or other civil proceeding shall be commenced against a director, officer, employee or agent of the IESO or a member of a committee or panel established by the board of directors of the IESO for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under any Act, the regulations under any Act, the IESO’s licence, the IESO’s by-laws or the market rules, or for any neglect or default in the exercise or performance in good faith of such a power or duty.”

The *Electricity Act, 1998* does not contain a similar statutory immunity for OPG’s directors, officers, employees or agents. However, under subsection 39(2) of the Proposed Legislation, a statutory immunity is provided to the OPG’s employees. This provision states:

“No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under [the Proposed Legislation], the regulations or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.”

Commented [VC11]: Why is this only for employees – the one above is for directors, officers, employees and agents

Subsection 39(2) of the Act provides that nothing in subsection 39(1) limits the effect of subsection 19(1) of the *Electricity Act, 1998*.

The statutory immunities provided under the *Electricity Act, 1998* and the Act prohibit/would prohibit an action or other civil proceeding from being commenced against the enumerated protected persons under the respective provisions for any act done in good faith in the exercise or performance of their duties. Nothing precludes a person from bringing an action or other civil

proceeding against these persons causing them to incur costs in defending the claim (for example, arguing that the act was not carried out in “good faith”).

The immunity from suit provisions outlined above, are qualified by the words “for any act done in good faith in the exercise or performance or intended exercise or performance of a power or duty under this Act...” This is a question of fact that needs to be considered by a court of competent jurisdiction. As such, statutory immunity would not necessarily be a bar to litigation and does not ensure that the IESO and OPG’s employees, officer or directors (as applicable) would not become embroiled in litigation.

Commented [VC12]: Does this indemnity do that?

In the case of OPG, there is no similar statutory immunity explicitly provided for its directors or officers, or each of its subsidiaries, their directors, officers, or employees so the risk of litigation is greater for these individuals.

For the reasons mentioned above, the Indemnities requested under this application would ensure that if a claim is brought against the protected persons as a result of carrying out their roles in implementing the ONFHP (despite the statutory immunities provided), they are protected for any costs, losses etc. subject to the limitations provided for in the Indemnities.

(b) Description of the risk and any risk mitigants.

The ONFHP is a novel program, the first of its kind in Canada. Because the work to be undertaken by OPG and IESO in carrying out their roles in implementing the ONFHP will fall outside of the usual operations/business risk that these corporation’s face, there is a risk that these corporations may be subject to increased liability specifically due to their roles with the ONFHP. This risk arises in part because of the kind of market that OPG, and IESO indirectly, are to participate in, and the steps that investors could take to protect their investments.

The risk to the Province of giving the Indemnities is undeterminable at this time, but any such risk may be mitigated by the following factors:

- 1) In the case of the IESO, the existence of a statutory immunity under subsection 19(1) of the *Electricity Act, 1998* may mitigate against a liability arising against its directors, officers and employees, but as mentioned, does not eliminate such risk.
- 2) In the case of OPG, the proposed statutory immunity under subsection 39(1) of the Proposed Legislation may mitigate against a liability arising against its employees, but as mentioned, does not eliminate such risk.
- 3) The Indemnities are limited to claims arising in relation to IESO and OPG’s respective roles in relation to implementing the

ONFHP.

- 4) The Indemnities do not apply with respect to Losses for which coverage is provided and to the extent already paid under such insurance, or other indemnification is provided, to the extent the individual is so indemnified under such indemnification in relation to the claims.
- 5) The Indemnities do not apply to Losses that are a result of the Protected Person's dishonesty, gross negligence or willful misconduct.

A contingent liability table is attached as Appendix "C".

(c) Scope of liability in the Indemnities

The Province would agree to indemnify and hold harmless the IESO and OPG, and OPG's subsidiaries as well as their respective directors, officers and employees from any claims, liabilities, costs or losses that might arise to the corporation, him or her (respectively) as a result of their roles in carrying out activities related to the implementation of the ONFHP.

Under the OPG and IESO Indemnities, a Protected Person would not be entitled to be indemnified in respect of Losses, or a portion thereof:

- (a) for which coverage is provided under an insurance policy or claims fund to the extent that such Protected Person is actually paid under such insurance policy or claims fund; or
- (b) for which other indemnities are already provided to a Protected Person to the extent that the Protected Person is actually so indemnified for those Losses by such indemnities; or
- (c) that are the result of such Protected Person's dishonesty, gross negligence or willful misconduct, but only if such dishonesty, gross negligence or willful misconduct on the Protected Person's part has been established by a final and non-appealable judgment or other final adjudication adverse to the Protected Person; for greater clarity the Province acknowledges and agrees that any finding that a Protected Person failed to conduct such reasonable investigation as necessary to provide the Corporation, a subsidiary of the Corporation or a financing entity, as applicable, with reasonable grounds for believing any prospectus, registration statement, offering document or any other document filed by, or on behalf of, a financing entity under applicable securities laws contained no misrepresentation shall not in and of itself constitute "gross negligence" or "willful misconduct" for purposes of this Section 2(c) or otherwise disentitle a

Protected Person from indemnification hereunder unless a court of competent jurisdiction in a final, non-appealable judgment determines that the Claim associated with such Losses resulted from the gross negligence or willful misconduct of the Protected Person claiming such indemnity, and in such circumstances, the Protected Person shall be disentitled from indemnification hereunder as a result of such Protected Person's gross negligence or willful misconduct; or

- (d) in the case of a criminal or administrative action or proceeding that enforces a monetary penalty, if such action or proceeding arises from any circumstances in which a Protected Person did not have reasonable grounds for believing was reckless as to their belief that the Protected Person's conduct was lawful in the case of a criminal or administrative action or proceeding that enforces a monetary penalty.

(d) Other Substantial Variances from the Province's Indemnity Template

The other substantial variance in the Indemnities includes a **waiver provision** (section 8 of the Indemnities) whereby the Province waives its right to bring any claim it could otherwise make against a Protected Person who is an individual relating in any way to the OPG/IESO's or such Protected Person's activities in the implementation, or otherwise relating to the Fair Hydro Plan (including where a Protected Person is acting at the request of the corporation, in a different capacity than as a director, officer or employee of the Corporation). However, this waiver does not apply to gross negligence, dishonesty or willful misconduct claims that may be brought by the province against the applicable Protected Persons. The risk associated with providing this waiver is likely low given that it is consistent with the gross negligence carve out provided for in the Indemnity Agreements (section 2(c)) and because the Province is unlikely to bring a claim against a Protected Person for Losses they have agreed to indemnify them for.

Commented [VC(13): What is its purpose?

OPG has indicated that the inclusion of this waiver is very important to their Board given that its directors and officers are undertaking the ONFHP activities at the request of the Province. Accordingly, the directors and officers do not want to take on liability towards the Province, as shareholder of OPG. The Indemnity is being provided to the IESO for consistency.

The Indemnities also include a representations and warranties section (section 9), which includes general representations and warranties with respect to the Province's authority to enter into these agreements and confirming that they have obtained the appropriate FAA approvals. We do not believe this variance poses a significant risk to the Province.

Commented [VC(14): Who has done this analysis? TBS legal?

(e) Effect of failure to obtain section 28 approval

If the requested Indemnities are not provided, this could impact the OPG and IESO directors' willingness to fully undertake their roles in implementing the ONFHP thereby jeopardizing the

successful implementation of this plan. For example, IESO directors may not be willing to carry out certain activities that would fall outside of the scope of its typical business activities and mandate if they view these as creating a risk of liability. Providing the Indemnities, would allow OPG, OPG's subsidiaries, and IESO, along with their directors, officers and employees to more confidently carry out their role in implementing the ONFHP.

APPENDIX “A”

PROPOSED INDEMNITY AGREEMENT FOR OPG
(Attached as a separate document)

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APPENDIX “B”

PROPOSED INDEMNITY AGREEMENT FOR IESO
(Attached as a separate document)

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APPENDIX “C”

CONTINGENT LIABILITY TABLE
(Attached as a separate document)

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