GA FINANCING – EQUITY INJECTION OVERVIEW

This document serves to provide an overview of the implementation mechanism, timelines and other issues for the GA Financing and the Equity Injection for Ontario Power Generation (OPG) from the Province.

OVERVIEW

- The Ministry of Energy, Ministry of Finance and the Ontario Financing Authority (OFA) are coordinating with OPG to implement a Global Adjustment (GA) smoothing mechanism.

- OPG will develop a Special Purpose Vehicle (SPV)referred to as "OPG Trust" to purchase the "right to collect" assets from the IESO in return for cash proceeds.

- OPG Trust will be structured to finance 51% of its funding requirements through the capital markets with the remaining 49% being provided by OPG as subordinated debt.
    - The 49% subordinated debt from OPG will be financed through debt from the capital markets (5%) and through equity injections from the Province (44%).
    - Annual payments will be received by OPG Trust for financing costs.
        - Staff Comments: Unclear if these financing costs/annual payments will be received by OPG [TBC: from IESO or ratepayers directly]?

- The mechanism by which the financing is conducted is yet to be finalized. Both OPG on behalf of OPG Trust and the OFA on behalf of the Province are separately looking to engage 'financial advisors' for the purpose of determining optimal financing structures, e.g. debt covenants, terms and conditions such as if to be callable, redeemable, etc. [Also see below.]

Commented [JK1]: Check with SIFB or CMD on the right terminology.

Commented [FC2R2]: To me this is part of the terms and conditions

BORROWING

- The 51% financing conducted by OPG Trust and the 5% financing via OPG will initially be financed through a short term credit facility which will be obtained by OPG. OPG has communicated that this may be through short term debt, raised from the Canadian money markets.
    - OPG staff further clarified that this would be facilitated through a new facility and to be put in place by OPG Trust and not any of the existing facilities OPG currently has in place.

Commented [JK3]: Did I get this right?

Commented [FC4]: If this is the case wouldn't they need a minimum amount of equity to be put in the Trust at the onset? I'm assuming OPG nor the Province will be providing a back stop to the Trust.

- Longer term debt will be issued as soon as possible, subject to market timing constraints.

  - OPG to retain 3 dealers to advice on the long-term borrowing and financing of the GA.
  - The OFA is also expected to retain a dealer to provide due diligence and independent advice for the Province's equity injection [TBC] into OPG and long-term borrowing by OPG Trust [TBC].

- The long term debt issued by OPG Trust may also be callable to buy back the bonds once the financed GA starts to be repaid. [TBC]

Commented [JK5]: I understood OFA's interest was more on how to structure its borrowing than other aspects but open to hearing different view.

Commented [JK6]: Why would OFA's borrowing be different? Carlos mentioned certain features, though would involve premiums?

EQUITY INJECTION MECHANISM

OVERVIEW

- The Province is expected to provide monthly equity injections to OPG
- In return, OPG would issue new shares to the Province at a value of $20 per share.
- These share issuances currently environed to be redeemable by the Province and OPG may also have rights to buy back the shares [TBC].
  - This would provide the Province with a flexible mechanism to redeem its equity investment in OPG, and allow OPG to return to a more suitable capital structure once the GA financing program has subsided.
  - Redeemable terms may include a lock-out period that permits the Province to redeem after a set time period.
  - [TBC] Shares may be considered preferred shares. Unclear whether at redemption these shares will have a non-par value (ie. not $20 per share).

Commented [FC7]: Not quarterly?

Commented [JK8R8]: Monthly now.

Commented [FC9]: Redeemable rights are really a call or put option and should be priced accordingly. In absence of this one of the parties is providing a subsidy to the other side.

PROCESS

- OPG Trust would receive the notice to purchase the asset from IESO.
- A notice would be received from OPG by the OFA for 44% of the asset for the equity injection.
- Separately OPG and OPG Trust would take out debt from the capital markets totaling 56% of the IESO asset value.
- There is a 5 business day transaction window from the timing of the notice received by the OFA to payment and settlement with the [or OPG?] IESO.

Commented [SQ210]: [TBC whether 5 business days required for OFA to provide payment to OPG or whether 5 business days is for the entire process of OFA->OPG->OPGT].

LEGISLATION AND TIMING

- The proposed timing for the legislation is May, early June.
- It's unclear how these rates would be effective to consumers if the RPP prices are reset on May 1 and November 1 of every year.
    - Furthermore, the RPP prices are announced by the OEB in mid-April and mid-October annually.
    - Unclear on whether the timing for this implementation mechanism would be sufficient for May 1, RPP prices.
- [TBC] TBS would provide an annual allocation, with a three-year program review cycle.

Electricity Finance Branch, Ontario Financing Authority
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