Reporter outlet: Matthew McClearn, Globe and Mail
Topic: Fair Hydro Plan – financing structure, borrowing costs

Questions and responses:

1. **"Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan? And what were their roles in establishing the accounting/financial structure?" (TBS)**

Response:

Ontario's Fair Hydro Plan, a plan that lowers electricity prices for all Ontarians on average by 25% was developed by the Ministry of Energy. Officials from Treasury Board, Finance, OPG, IESO and the Ontario Financing Authority along with external advisors that included Ernst and Young, KPMG and Deloitte worked on the accounting related to the Fair Hydro Plan. They along with the Office of the Provincial Controller ensured that this plan was in accordance with Public Sector Accounting Standards. It's also important to note that the accounting treatment used in this plan is used in jurisdictions across North America including Alberta, New England, New York, Minnesota and Texas.

2. **I request the detailed borrowing estimates cited by the government [peak debt and accumulated interest], including the underlying math behind peak debt and interest charges and any assumptions made. Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program as conditions change, including variables such as interest rates, electricity demand, and electricity system costs. (ENERGY)**

Response:

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program as conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Under the *Ontario Fair Hydro Plan Act, 2017* (the "Act"), the Minister is responsible for calculating the "Fair Allocation Amount," or FAA, which represents the difference between GA costs that would be payable absent GA refinancing, and amounts that will be paid under the GA refinancing program in order to ensure electricity system costs are fairly allocated amongst current and future ratepayers. In other words, in the early years the FAA represents the amount of GA that is being deferred, and in the later years, it represents amounts that will be recovered from ratepayers.

Ontario Power Generation (OPG), in its role as Financial Services Manager (FSM) under the Act, is responsible for developing financing plans based on the FAA and managing the debt obligations in order to ensure the policy objectives of Ontario's Fair Hydro Plan are achieved.

Ministry analysis underpinning the FAA, which was provided to OPG on September 28, 2017, forecasts peak debt at approximately $20 billion and a total interest cost of less than $19 billion. This analysis projects that an average of $1.9 billion of debt will be issued per year over the next 10 years.

Forecasted peak debt represents the maximum annual debt balance. Total interest cost is the sum of forecasted annual interest paid over the thirty-year life of the program, which is calculated based on the average debt balance in each year and a 5 per cent average interest rate over the life of the program.

On February 6, 2018, OPG, in its role as FSM, announced that it was able to secure an interest rate of 3.357 per cent on the Fair Hydro Trust's (FHT) first issuance of senior debt in the capital markets, with a 15 year term and a value of $500 million. The rate achieved on this first offering is significantly lower than initial projections of 5 per cent by both the Ministry of Energy and the FAO.

The remainder of the first issuance of debt is split between $382 million of subordinated debt at an interest rate of 3.637 per cent and $98 million of junior subordinated debt at 3.957 per cent. The subordinated and junior subordinated debt was provided by OPG through a mix of equity provided by the Government of Ontario and borrowing from capital markets.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

In accordance with the legislation, the FAA may be updated from time to time to reflect updated inputs, including revised forecasts and actual debt amounts.