PROVINCIAL GUARANTEE AND OTHER FINANCING ISSUES

ISSUE

To support the Fair Hydro Plan, OPG is requesting that the Government of Ontario provide a guarantee to the OPG Financing Entity and prospective debt holders such that the funding obligations of the Financing Entity will be met by the Province under certain circumstances.

TERMS OF THE GUARANTEE

Events that would activate the Provincial Guarantee:

- Decisions by the Legislative Assembly, i.e., repeal of the Ontario Fair Hydro Plan Act, 2017, or amendments that adversely affect the OPG Financing Entity;
- A court decision that declares any funding obligations of the Financing Entity to be unenforceable; and
- Changes to the organization, structure or operations of IESO adversely impacting the Financing Entity.

Guarantee:

- The Province would take over the obligations of the Financing Entity including principal and interest payments on debt issued to date and any outstanding payments to service providers (i.e., trustees, auditors).
- The Provincial guarantee will continue until all obligations of the Financing Entity are fully discharged.

Recommendation:

- Pending review by MOF Legal, Energy Legal and external counsel (Blake's), recommend TB/MBC approve the terms of the Guarantee as set out in the term sheet and further detailed in the draft guarantee document to be provided by OPG.

OTHER FINANCING/ACCOUNTING RISKS TO BE RESOLVED

Commingling Risk:

- Refers to the risk associated with unrated/below investment grade Local Distribution Companies (LDCs) not remitting collections from ratepayers to the IESO.
- IESO to provide either a Letter of Credit or assume responsibility for this risk amounting to the expected Clean Energy Adjustment from these LDCs over the

next 45-60 days. OPG estimates the Letter of Credit to be approximately $50 million.
- IESO expressed concerns both from a mandate and accounting perspective on issuing either a Letter of Credit or assuming responsibility for the commingling risk.

Warehouse Takeout Risk:

- Refers to the risk associated with the Financing Entity unable to issue debt in order to pay down the short term financing provided by its banks.
- There may be potential costs to the ratepayer in the form of higher interest rates from the step–up pricing clause in the Financing Entity's agreement with the banks providing the short term financing.

NEXT STEPS

- MOF Legal, Energy Legal and external counsel (Blake's) to review term sheet and draft guarantee document
- OPG/IESO to consider outstanding financing/accounting issues
- TB/MBC decision on Provincial Guarantee (September TBC)

Ontario Financing Authority
August 15, 2017