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Debt financing

ISSUE:

Ontario Power Generation (OPG) is establishing a borrowing platform which allows OPG to borrow up to $2 billion in the public debt markets over the next 25 months. Up to $300 million of the proceeds could be used to finance a portion of OPG investment in the Government of Ontario's Fair Hydro Plan. Other funds raised can be used for corporate purposes including capital investments.

Background

- As part of Ontario's Fair Hydro Plan, OPG is seeking financing on the public debt markets to support the smoothing out of the Global Adjustment cost on consumer's bills.
- The initial issuance is expected to be between CAD $300 to $500 million depending on market receptiveness. $300 million will be used to support the Fair Hydro Plan.
- The proceeds will be used for general corporate purposes, funding OPG's investment in the Fair Hydro Plan Trust, and to complement current borrowing.
- The expected initial offering will be at the end of September 2017.
- In the past, OPG has primarily borrowed from the Ontario Energy Financial Corportation (OEFC), an agency of the Ontairo Ministry of Finance, which charges OPG interest based on market rates.
- OPG has also project financed investments in hydro projects such as the Lower Mattagami project and the recently completed Peter Sutherland Generating Station which amounts to ~1/3 of OPG total consolidated debt obligations.

Key messages:

- OPG has a strong financial balance sheet and will be able to help meet the company liquidity and financing needs, and grow the company by using money obtained through the debt markets to invest in strategic priorities. This debt platform increases the Companies financial flexibility to the benefit of customers.
- OPG is owned by the people of Ontario and a financially strong OPG is a benefit for electricity customers.
- As announced in Ontario's Fair Hydro Plan, OPG will be establishing an arms' length financing entity which will support the refinancing of the Global Adjustment charge to help reduce costs to consumers.
- OPG is seeking approximately $300 million in financing to support its investment in the Fair Hydro Plan.

Questions and answers:

Will OPG pay more for debt as a result of seeking debt on the public markets?

No. OPG has always paid market interest rates for financing regardless of the source.

How has OPG obtained financing in the past? Why is it not receiving financing from the Government of Ontario?

In the past OPG has obtained financing through the Ontario Electricity Financial Corporation and through public debt markets for certain major capital projects. OPG has always paid market interest rates for any debt issued to it by the OEFC. This debt platform is another source of liquidity and provides additional flexibility.

Why is OPG seeking additional debt now? What will it be used for?

It's normal business practice for any corporation to seek debt from time to time for general business needs. This includes refinancing of existing debt and borrowing for capital expenditures such as Darlington refurbishment.

Why is OPG seeking $2 billion in financing when it only needs $300 million for the Fair Hydro Plan?

At this time, OPG is targeting between $300 million and $500 million through the financial markets for its inaugural issue. Any additional financing will only be drawn upon as needed. Additional borrowing could be used for general corporate purposes including capital expenditures and debt refinancing.

How will this debt be paid back?

Funds from operations and cash from investments.