Outstanding Business Issues – Ontario Fair Hydro Plan
Briefing Note

PURPOSE
Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Provincial Support Agreement Term Sheet (Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA have discussed a draft term sheet and the OFA, MOF and Blakes will work together to provide comments
     - <u>Timing</u>: Guarantees are required to support rating agency review which is expected by the end of July.

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - Provincial staff, with OPG's concurrence, recommends minimizing, to the extent possible, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
   - The Province is considering regulation changes to exempt from PILs the income arising to the OPG financing vehicle / OPG as a consequence of the Fair Hydro Plan.
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.
   - **Next Steps:**
     - The MOF, OFA and OPG are working together to determine required regulation changes.
     - Torys prepared a memo on the item
     - <u>Timing:</u> MOF will be setting up a call with tax policy, OPG and Torys to discuss a memo Torys prepared on the item in the next few days

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**
   - OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
   - The Ministry of Energy received appropriation for a fiscally-neutral operating asset expenditure of $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT.
   - **Next Steps:**
     - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process, which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
     - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June.

4. **Management Fees**
   - OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
   - The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations, which are currently in development.
   - OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements.
   - There are two components to the model proposed by OPG:
     - Base fee: the structure will allow OPG to earn a commercial fee, an accounting consolidation requirement, with periodic OEB review of the commercial basis of that fee. OEB and OPG are in discussions in order to develop a model that satisfies the accounting requirements and is consistent with OEB's processes.
     - Performance management fee: OPG has the ability to gain or lose depending on the actual financing cost relative to a benchmark, which would be shared equally between ratepayers and OPG. Gain/loss is capped at 1% of annual incremental issuance amount.
   - **Next Steps:**
     - OPG and OEB will bring forward a recommended framework for developing management fees.
     - Timing: TBD

5. **Subordinated Debt Loan Agreement**
   - OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt

- Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
- OPG and OFA are working on a Debt Loan Arrangement that would establish the interest rates on the subordinated debt
- **Next Steps:**
    - OPG and OFA will bring forward a recommended framework for determining interest rates
    - Timing: TBD

6. **IESO – Increased OFA Credit Facilities**
    - THE OPG financing entity is not expected to be immediately operational, so the IESO will need to have transitional financing in place to manage the difference in the payments to generators and other service providers vs payments from loads / LDCs.
    - There may also be on-going monthly cash flow timing differences that the IESO will need a credit facility for.
    - In addition, the OPG financing entity has the right to purchase the regulatory asset from IESO but is not required to purchase it.
    - IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
    - **Next Steps:**
        - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking the Minister's approval for an LRC submission to approve an OIC for an additional $2 billion in borrowing capacity, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the requested new Credit Facility.
        - Timing: The OIC is scheduled for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017

7. **OPG Indemnity**
    - OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee In order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
    - Indemnification will need to ensure separation between the Province and OPG is maintained
    - **Next Steps:**

- Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
- Depending on the structure of the indemnity requested, an OIC may be required to provide authority to the Minister of Finance
- <u>Timing</u>: If an OIC is required this would be included in the June 27th, 2017 submission