

Provincial Support Agreement

Briefing for Minister of Energy
Tuesday August 29th, 2017

CONFIDENTIAL & COMMERCIALY SENSITIVE

Background

- The *Ontario Fair Hydro Plan Act, 2017*, enables the IESO to establish a variance account to record the deferral amounts from the difference between collections from current ratepayers and payment obligations to generators and conservation, and to create a regulatory asset to recover the balance in the variance account
 - The IESO can then sell the regulatory asset – the right to recover those deferred amounts from specified consumers in the future
 - OPG, as the Financial Services Manager, is authorized to establish one or more financing entities that may incur funding obligations
 - The Financing Entity will purchase the regulatory asset, effectively financing the shortfall in current rates not received from ratepayers
- To purchase the regulatory asset from the IESO, the Financing Entity must borrow a portion of the funds from capital markets (planned to be 51%, with other financing to come from OPG and, indirectly, the Province)
 - OPG's financial advisors have indicated that without adequate protection against legislative, judicial and organizational risk, the debt would not be financeable or would result in higher financing costs, to be passed on to ratepayers
- OPG has requested that the Province provide a support agreement that supports the Financing Entity and prospective debt holders such that, under certain circumstances, the Province would guarantee the repayment of the funding obligations of the Financing Entity

Provisions Under the Act

- As contemplated under the Act, OPG is requesting a Provincial commitment to support the planned Financing Entity's ability to borrow to finance the deferral of global adjustment amounts in certain limited circumstances
- Under s.5(3) of the OFHP Act,
 - *The LGIC may by order,*
 - *Authorize the Minister (of Energy) and the Minister of Finance, acting together on behalf of the Province,*
 - *To agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and*
 - *To determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity*
 - *Specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance*
 - *Specify a maximum liability for the guarantee or indemnity*

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- Certain events that would negatively impact holders of Fair Hydro Plan debt sufficiently to activate the Provincial support, including:
 - Decisions by the Legislative Assembly, i.e., repeal of the *Ontario Fair Hydro Plan Act, 2017*, or amendments or new legislation that adversely affect the Financing Entity
 - A court decision that declares the rights of the Financing Entity to recover amounts from ratepayers to be invalid or unenforceable
 - Changes to the organization, structure or operations of IESO which results in the Financing Entity no longer being able to recover amounts related to funding obligations
- In the event the support agreement is triggered, the Province may 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
 - The Province could potentially service the debt and other obligations and could replace OPG as the financial services manager
- The support agreement may need to be revised at a future date, or approval from the Province may be required, if the financing entity must access US market as investors in that market will likely require additional compensation if the guarantee is triggered
- Additional details, including terms and conditions to be specified by the LGIC in an Order-In-Council (OIC), or by the Ministers, need to be settled on, as the approvals process proceeds

Considerations

- If a support agreement is not provided, the Financing Entity would either be unable to raise sufficient financing from capital markets to purchase the regulatory asset from the IESO or the cost of the financing will be potentially materially greater than it otherwise would be
- OPCD will need to review the details of the proposed Provincial support agreement for any accounting implications
 - E.g., an unlimited Provincial guarantee would cause the debt to be treated as Provincial debt
- If a support agreement is provided, the Province takes on a contingent liability
 - The creation of a contingent liability will not currently affect net debt
 - The amount of the contingent liability will increase over the duration of the Fair Hydro Plan
 - The most recent estimate for total debt to be financed by a financing entity would be in the range of \$10 billion [TBC] (assuming a 5% interest rate)
- In the event the support agreement is triggered, the Province's net debt will most likely increase by an amount equal to the contingent liability at that point in time
 - The Province's interest payments will also increase by the debt interest servicing of the debt payment obligations it has assumed under the support agreement

Next Steps

- Continue to work through outstanding issues related to the provincial support agreement
- Negotiate draft term sheet, working with OPG / OFA / MOF / Legal / Dealers
- Ministry of Finance to seek necessary approvals from TB / MBC
- Seek LRC / Cabinet approval for OIC
 - The term sheet would inform a proposed OIC
 - Whether to include a maximum liability amount would need to be considered in developing the TB submission and the request for the OIC
- The support agreement would need to be drafted in accordance with the OIC