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Ontario

APR 13 2017

MC-2017-750

Mr. Bernard Lord
Board Chair
Ontario Power Generation Inc.
700 University Avenue, 19th Floor
Toronto ON M5G 1X6

Dear Mr. Lord:

I am writing to provide Ontario Power Generation Inc. (OPG) with additional detail regarding elements of Ontario's Fair Hydro Plan as announced by the government on March 2, 2017. Given OPG's active participation in the electricity market and its expertise in rate regulated accounting and investment stewardship over significant pension and nuclear funds, I am writing specifically to request OPG's involvement in the implementation of the Global Adjustment (GA) refinancing that will be required in relation to changes to the GA proposed as a component of Ontario's Fair Hydro Plan.

The Government of Ontario proposes to take steps to lower electricity bills by 25 per cent for a typical residential electricity consumer relative to what those bills would otherwise have been without Ontario's Fair Hydro Plan. Changes to the GA are proposed to be a component of the 25 per cent rate relief. This proposed 25 per cent rate relief measure would also be inclusive of the 8 per cent rebate that is already in effect under the *Ontario Rebate for Electricity Consumers Act, 2016* and the savings that are anticipated to result from the proposed shifting of the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRPP) program costs from ratepayers to provincial revenues.

I am requesting that OPG, working with the Ministry of Energy, the Independent Electricity System Operator (IESO), the Ontario Financing Authority (OFA) and their respective advisors, consider and recommend a plan for financing mechanisms that could achieve the Province's objectives with respect to Ontario's Fair Hydro Plan, all in accordance with any legislation and regulations currently in place, or that may subsequently be implemented, with respect to facilitating Ontario's Fair Hydro Plan.

In particular, the Province would like OPG's financing plan to consider, among other things, structures and methods that would permit refinancing of a portion of the GA in order to reduce electricity prices for specified electricity consumers, with the costs of the refinancing to be recovered over a period of no more than 30 years, all in accordance with any legislation and regulations currently in place, or that may subsequently be implemented, with respect to facilitating Ontario's Fair Hydro Plan. I would also expect OPG's financing plan to include:

.../cont'd

I. Potential structures for the financing, which may include, as appropriate, a special purpose vehicle (SPV) created for the financing;

II. Potential financing mechanisms and instruments, including senior debt and subordinated debt; and

III. Identification of the capital markets and jurisdictions that can be accessed to refinance a portion of the GA.

The Province recognizes the need to provide OPG with the necessary assurances with respect to recovery of the principal, interest and operating and other costs of any financing, and will consider the specific requirements identified by OPG and its advisors, including in any future legislation and regulations that would govern the mechanics and requirements of the financing entity. I would also request that your plan identify any amendments to OPG's governing legislation and constating documents needed to facilitate the implementation of the financing plan in a commercial manner.

I would further expect that OPG's financing plan would be implemented in an effective and cost-efficient manner by OPG balancing the need to protect the interests of ratepayers and the financial health of OPG. I would also further expect that OPG will ensure that any of its proposed borrowing and other activities under its financing plan take into account the "inter-generational" approach that the Province is intending to provide in executing Ontario's Fair Hydro Plan.

I look forward to receiving a detailed plan that has the support of the OPG Board of Directors by June 1, 2017.

Sincerely,

Glenn Thibeault
Minister

c: Hon. Charles Sousa, Minister of Finance
Scott Thompson, Deputy Minister of Finance
Serge Imbrogno, Deputy Minister of Energy
Gadi Mayman, CEO, Ontario Financing Authority
Jeffrey Lyash, President and CEO, Ontario Power Generation

ONTARIO POWER GENERATION

Bernard Lord
Board Chair

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April 18, 2017

The Honourable Glenn Thibeault
Minister of Energy
4th Floor, Hearst Block
900 Bay Street
Toronto, Ontario
M7A 2E1

Dear Minister Thibeault,

I am writing in response to your letter dated April 13, 2017, in which you requested OPG work with the Ministry of Energy, the IESO and the OEB and their respective advisors to consider and propose a financing plan to refinance the Global Adjustment in a manner that achieves the Province's price objectives, as outlined in the Premier's March 2, 2017 announcement.

As requested, OPG is working with the Ministry of Energy, the IESO and the OEB and their respective advisors to develop a plan that will incorporate the matters you identified, including potential structures and mechanisms that permit viable financing, sources of financing and required changes to legislation, regulations and OPG's constating documents to facilitate the implementation of the financing plan in a commercial manner. The plan will also include assurances that implementation of the financing plan will have no adverse impacts on OPG, its operating assets or the manner in which they are regulated. I note the Province's commitment to provide OPG with the necessary assurances with respect to recovery of the principal, interest, and operating and other costs of any financing. This will be an important consideration for the OPG Board.

OPG has engaged financial and legal advisors with significant capital markets expertise, including experience in the United States where a number of state-owned utilities have put in place highly rated financing for costs that are to be recovered over a long period of time. Work on OPG's financing plan is being guided by these advisors and precedents.

The Board will provide you with our recommendation and plan in the timeframe requested.

Sincerely,

Bernard Lord

Bernard Lord
Board Chair

cc: The Honourable Charles Sousa, Minister of Finance
Scott Thompson, Deputy Minister of Finance
Serge Imbrogno, Deputy Minister of Energy
Gadi Mayman, CEO, Ontario Financing Authority
Jeff Lyash, President and CEO, Ontario Power Generation