MEMO

Date:

To: Glenn Thibeault, Minister of Energy

<u>Re: Fair Hydro Plan Impact on OPG</u>

The government introduced Ontario's Fair Hydro Plan in early March and the proposed Fair Hydro Act, 2017 in May. If passed, the proposed legislation would lower hydro bills by 25 per cent on average for all residential customers. The following describes the role the Ontario Power Generation (OPG) will play in financing the customer reductions envisioned in the proposed legislation and the impact on its accounting and business results.

As outlined in the proposed legislation, OPG will provide industry expertise and financial resources through its role in managing the refinancing of the Global Adjustment (GA) based on the following:

- Broad experience with Ontario's energy market system and regulatory environment;
- Currently manages over $30 billion related to OPG pension and nuclear decommissioning funds, and has the capability for managing this program; and
- As Ontario's low cost generator the ability to accommodate customer hydro bill reductions is another way OPG can play a part in helping customers manage electricity costs.

In order to refinance the GA, the OPG will need to create a "ring-fenced" special purpose vehicle (SPV) entity that will operate outside OPG's regular operations. The entity would refinance payments that underlie the 25 per cent bill reduction to consumers and spread recovery of these costs over a longer period of time, which would lower customer bills in the intervening period.

While the operation of the SPV entity will be distinct and separate from the generation business, OPG believes the legislation, in combination with the future regulations, will enable OPG to consolidate the operations of this entity. Through these regulations and other supporting documents, OPG would demonstrate control over the financing entity that is needed to support consolidation. OPG sought advice from its auditors, Ernst & Young, on this matter through a memorandum entitled *OPG Accounting Considerations of Ontario Fair Hydro Plan*. Ernst & Young have concurred with the company's assessment from that memorandum.

All documentation that outlines the roles of various parties including the Independent Electricity System Operation (IESO) and the Ontario Energy Board (OEB) will have to fit together to provide a complete picture. With the consolidation of OPG by the Province, the operations of Ontario's Fair Hydro Plan will continue to be fully reflected in the Province's financial statements.

Sincerely,

Jeff Lyash
President and Chief Executive Officer