Questions and Answers for Fair Hydro Announcement

Likely PC Questions

Q: Do you think the government is doing this so they won't have to carry this on their books?

- Or role at OPG is not to make policy but rather to take policies and projects we're given and execute them to the best of our abilities.

Q: What checks and balances are in place?

We believe we have put the checks and balances in place to make sure this program will be well managed and will reduce the risk.

Each month the IESO will create a regulatory asset whose value will be approximately the difference between what it owes generators and for conservation program and what it receives from LDC's.

As Financial Services manager of the Financing Entity (SPV or Trust), OPG must determine whether the trust can purchase the regulatory asset from the IESO by:

- Assessing whether the cumulative debt issued by the Financing Entity remains within the unamortized value of the underlying system assets. This is done by periodically updating financial models to reflect actual data and latest forecasts for system costs, electricity demand, customer rates and interest rates.
- Assessing conditions in the debt capital markets, such as the interest rate environment, investor demand and requirements, credit conditions, general liquidity issues and overall pricing.
- Ultimately, should the underlying asset and debt become disconnected or if there are significant issues in the debt capital markets, the Financing Entity's can decide against purchasing the regulatory asset from the IESO.

Q: How much is being borrowed from the province? I have heard various numbers.

Waiting direction from province on what we would say.

Q: We've heard a lot about what prices may be down the road once this program ends. Do you agree with what the leaked cabinet document says about higher prices down the road?

Comment [11]: I think staying at a high levl on prices would be the safest route. But need to think about a supplementay reponse on price models.

As Financial Services Manager, OPG would determine the Clean Energy Adjustment. This is the amount of interest, principal, financing and administrative costs ratepayers would need to repay in a given period. The OEB would then translate this into the price paid by consumers.

The actual amounts will depend on variables such as interest rates, the amount borrowed and what others costs are taken out of the system. The Minister has said these projections would be in the Long Term Energy Plan.

Q: What appetite do you see among investors for this?

Comment [12]: Carlo to provide answer to these two questions based on conversation with Todd Smith as this will ensure consistency.

Q: What interest rate assumptions are you using?

LIBERAL QUESTIONS

Q: OPG will play a big role in ensuring lower customer bills. Can you tell the committee why you were selected or expand on your opening remarks?

- Certainly - OPG has been asked to do this because of our expertise in the Ontario electricity market, our regulatory experience, our experience raising money to finance its projects and our experience managing large segregated monetary funds.
- So let me explain. We're the largest company in the Ontario energy system and on a daily basis we are interacting with the IESO, so we understand how the electricity market operates.
- We manage a large pension fund and manage the segregated nuclear funds for decommissioning and fuel storage. This gives us valuable experience in the markets.
- We're the only generator who goes to the OEB to have our rates set, so this gives us regulatory experience.
- And we raise large sums of money to finance projects like the Lower Mattagami and Peter Sutherland GS.
- So the combination of this experience, and should I add, expertise, means we have the in-house capability to take on something like this and not have it impact our operations.

Q: Can you outline some examples of similar plans?

- There are a number of examples of companies securitizing debt.
- The largest I can think of was one that Ford Motor Company did between 2012-2017 that was about $61 billion US.
- On the utility side: Duke Energy Florida did this in 2016 and it was about $1.2 billion. PECO Energy did something like this for about $4 billion US in 1999.
- And closer to home, Canada Mortgage and Housing Corporation has done this a number of times. Most recently in 2014, where they securitized $6 billion.

NDP Questions – note, we may get some indication over the weekend as to what they want to know, but these are possible questions.

Q: I find it odd you would be asked to take on this role. Did you question the government as to why you, and not the OEFC should do this?

- When the Minister asked us whether we had the capacity to take this on we saw this is an extension of our role as a price moderator.
- We also thought that our experience with large funds, raising money in financial markets and our experience with the Ontario energy system provided us the proper skills and expertise needed to do this.
- But we also made sure that the proposed plan would not interfere with our core business, nor pose undue risk to OPG.
- And after doing our due diligence came to the conclusion that we had the capacity to take this on and do it well.

Q: But does this not mean higher interest rates?

- I am not sure why you would assume this. We won't know the exact interest rate until we go to market, but can assure you we will do what we can to ensure the best rates possible.

Q: You mentioned Pickering in your remarks. Our platform calls for early closure of the plant and accelerated decommissioning as we think this would save money and reduce surplus baseload generation. What are your thoughts on this?

- I respectfully disagree with this assumption. Closing Pickering early and will drive customer rates up.
- It would increase carbon emissions by a minimum of 17 million tonnes. This is because the replacement energy would come from gas plants. Don't get me wrong, gas plants, like Portland Energy Centre in your riding Mr Tabuns, play a key role in the energy system. But having them replace the baseload power from Pickering would be a mistake.
- And it would cut jobs and the economic benefits the plant brings to the community and the province.

GENERAL QUESTIONS Q: Why is OPG doing this?

- The Ontario government asked us to play a role in reducing customer rates by implementing the program that will reduce the impacts of the investments made in clean energy.
- We were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large monetary funds and raising debt in capital markets.
- As Ontario's low cost generator we see our role in the Fair Hydro Plan as another way we can play a part in helping customers manage energy costs.

Q: What is OPG's role in this initiative?

- OPG will provide the industry expertise and financial resources, as the proposed legislation would give the company a role in managing the financing aspects as it relates to the customer impact of the Global Adjustment (GA). OPG would create a ring-fenced special purpose vehicle that would operate outside OPG's regular operations. The entity will refinance payments that underlie bill reductions related to the Global Adjustment to consumers and spread recovery of these costs over a longer period of time, which would lower customer bills in the intervening period.

- OPG has worked collaboratively with the Ministry of Energy, Ministry of Finance, Ontario Energy Board and Independent Electricity System Operator to develop the framework for this
- We were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large monetary funds.

Q: Thanks, but how exactly does this work?

- The new financing entity would be dedicated to finance the deferral of the Global Adjustment
- Under this plan, if passed, the OEB will set customer prices that reflect the Fair Hydro Plan commitment to lower customer bills.
- The IESO will continue to operate the electricity system, collect revenues from ratepayers via the LDC's, and pay generation and conservation programs at their contracted or regulated prices. The financing entity would fund the IESO monthly for the deferred costs to make up the difference between the revenues collected from customers and the payments for generation and conservation.
- The new financing entity will borrow from capital markets and from OPG to finance the deferral. The OEB will set future RPP prices to recover those costs, plus interest and fees.

Q: How much money will the Financing Entity have to borrow to finance lower bills for customers?

- The proposed legislation is a high level framework that will need to be supplemented by both regulations and agreements that will provide more detail.
- The objective is to defer a portion of the money that's been spent to create a cleaner energy system into the future based on a re-evaluation of the expected lives of relevant generation assets.
- A number of factors including electricity demand and market prices will determine how much will need to be borrowed in the future. The IESO will inform OPG how much the Financing Entity needs to borrow on a monthly basis in order to implement this deferral.
- All financial aspects of the Financing Entity will be reported transparently each quarter in OPG's financial results.

Will this impact OPG's existing operations or its credit rating?

- This new entity will be structured to ensure it does not impact OPG's existing operations
- Similar to other large companies there will be a separate stand alone borrowing program distinct from OPG that will access the markets on a cost efficient basis.
- We have kept credit rating agencies informed of the structure and we anticipate this will have a neutral impact on our credit rating

Q: Will OPG make money on this?

- OPG will be providing some funding in support of the program. It is anticipated that the majority of the funding will be provided in the public debt markets. OPG returns will be commercial and consistent with the rest of the program funding structure. OPG will also receive fees for managing the entity.
- The financial aspects of this will be reported transparently each quarter in our financial results.
- Remember that OPG is owned by the province and the people of Ontario. Any profits we make form part of the returns to the shareholder.

Q: Is this the right thing to do? Aren't you just kicking the problem down the road?

- *If possible, politely defer questions of policy to the government. If pushed:*

- That said, we do hear from our customers that they are facing difficulties paying for their power, so we understand the importance of helping them manage their bills so we understand what people are experiencing.
- As Ontario's lowest cost generator we see our role in the Fair Hydro Plan as another way we can play a part in helping customers manage energy costs.

Q: To make this happen, OPG is borrowing billions of dollars to set up a financial fund that will be used to pay the difference between the actual cost of electricity and the cost a customer will pay. Won't electricity customers be paying a big increase after the plan ends?

- *Politely defer questions of policy to the government [if pressed see following point]*
- I will defer to the Minister, but it's no secret energy bills are of concern so this provides immediate benefits for consumers and our job is to make sure we manage this entity effectively and efficiently.

Why didn't the Government do this on their own?

- *Politely defer questions of policy to the government*
- OPG is owned by the province and by the people of Ontario.
- We were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large funds
- As Ontario's low cost generator we see our role in the Fair Hydro Plan as another way we can play a part in helping customers manage energy costs.
- All financial aspects will be transparently reported in OPG's quarterly financial disclosures.

Q: When will the initial market offering take place?

- The legislation would first have to pass and achieve Royal Assent. We would then go to market after the regulations and financial agreements are completed.

Q: How will this new debt show up in the province's books? How will this affect the province's "net debt"?

- OPG will control the Financing Entity and as a result, it will be consolidated in OPG's financial statements.
- (On questions regarding the province's net debt – refer to the Province).

Q: Will OPG need to employ new employees to manage this fund?

- We think we will need perhaps five or six people to manage this.

Q: What due diligence did you follow to make sure this would work?

- Our goal was to ensure we provided the rate relief called for in this plan, while ensuring we kept this new entity separate from OPG's operating business. This required a balance of accounting, legal and financing considerations.
- So we sought advice from outside legal financial and accounting advisors to help us develop our plan.

Q: What interest rates will be charged annually and what's the cumulative amount of money accrued over the life of the plan?

- As the Ministry materials today note, the estimated cost is expected to be about $2b billion over the life of the program, but his really depends on what happens with long term interest rates and how much borrowing the Trust ultimately does.
- OPG will seek to minimize overall financing costs to the customer by targeting a lower average cost.

Q: Has your Board approved this (unlikely to be asked)?

- Our Board approved this conditionally pending approval of the proposed legislation. The felt there were sufficient checks and balances to ensure OPG would not be put at risk.

Q: What checks and balances are in place?

Each month the IESO will create a regulatory asset whose value will be approximately the difference between what it owes generators and for conservation program and what it receives from LDC's.

As Financial Services manager of the Financing Entity (SPV or Trust), OPG must determine whether the trust can purchase the regulatory asset from the IESO by:

- Assessing whether the cumulative debt issued by the Financing Entity remains within the unamortized value of the underlying system assets. This is done by periodically updating financial models to reflect actual data and latest forecasts for system costs, electricity demand, customer rates and interest rates.
- Assessing conditions in the debt capital markets, such as the interest rate environment, investor demand and requirements, credit conditions, general liquidity issues and overall pricing.
- Ultimately, should the underlying asset and debt become disconnected or if there are significant issues in the debt capital markets, the Financing Entity's can decide against purchasing the regulatory asset from the IESO.

Q: How much is being borrowed from the province? I have heard various numbers.

Waiting direction from province.

Q: We've heard a lot about what prices may be down the road once this program ends. Did you model this?

As Financial Services Manager, OPG would determine the Clean Energy Adjustment. This is the amount of interest, principal, financing and administrative costs ratepayers would need to repay in a given period. The OEB would then translate this into the price paid by consumers.

The actual amounts will depend on variables such as interest rates and the amount borrowed