Ministry of Energy

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Ontario

MC-2017-1757

SEP 2 8 2017

Mr. Bernard Lord
Board Chair
Ontario Power Generation
700 University Avenue
Toronto ON M5G 1X6

Dear Mr. Lord:

Re: *Ontario Fair Hydro Plan Act, 2017* and the Fair Allocation Amount

I write pursuant to my obligation under subsection 20(4) of the *Ontario Fair Hydro Plan Act, 2017* (the Act) to provide Ontario Power Generation (OPG), acting in its capacity as Financial Services Manager under the Act, with the Fair Allocation Amount (FAA) in respect of each reference period from July 1, 2017 to April 30, 2047. Terms used in this letter that are also used in the Act and the related regulations have the definitions provided for in the Act and the related regulations.

The FAA for each reference period, determined in accordance with subsection 20(1) of the Act and Ontario Regulation 206/17 (General) made under the Act, including associated estimated financing costs, shall be the amount set out in Schedule "A" to this letter. I would also note that the estimated financing costs, including estimated fees, contained within the FAAs are reflective of input from OPG staff.

Also included in Schedule "A" are the readjustment amounts for the first four reference periods and additional readjustments that are expected to be made beyond the first four reference periods, reflective of past overpayments of clean energy costs between 2005 and 2017 and consistent with the Government of Ontario's commitment to hold rate increases, for four years, to not more than the rate of inflation. The recovery of these readjustment amounts and related interest costs have been included in the calculation of the FAAs in Schedule "A" as per subsection 20(2) of the Act and related regulations.

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To support the calculation of the FAA, the potential useful life of clean energy assets has been examined and a fair allocation of clean energy costs associated with those assets over time provided, so that specified consumers in the future pay their fair share for the benefits that they receive from those clean energy assets.

I trust OPG in its role as Financial Services Manager, under the Act, will prepare the Financing Plan in accordance with subsection 21(3) of the Act that reasonably aligns with these FAAs. I would also note that under the Act, the FAA amounts included in Schedule "A" may be updated in consultation with OPG staff from time to time. We expect that the FAA amounts will be updated on a periodic basis to reflect actual Independent Electricity System Operator (IESO) deferrals from actual Global Adjustment costs and consumer rate reductions and actual costs of the financing entities under Ontario's Fair Hydro Plan.

I would also note that Ministry of Energy staff would provide OPG staff with the residential bill assumptions from the upcoming 2017 Long-Term Energy Plan to provide further context in relation to the amounts included in Schedule "A".

We look forward to continuing to work with you as this initiative moves forward.

Sincerely,

Glenn Thibeault
Minister

Enclosure

c: Serge Imbrogno, Deputy Minister of Energy
Jeff Lyash, President and CEO, Ontario Power Generation

Redacted - Commercially Sensitive

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