ONTARIO POWER GENERATION

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March 28, 2018

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

Hand Delivered and sent via email

Dear Minister Thibeault,

Re: Financial Services Manager Report for 2017

Pursuant to section 14(3) of *Ontario Regulation 206/17*, Ontario Power Generation Inc., in its capacity as the Financial Services Manager ("FSM") under the *Ontario Fair Hydro Plan Act, 2017*, has prepared the requisite report with respect to its affairs as FSM during 2017 and it is enclosed herewith.

Sincerely,

John Lee
Vice President – Treasurer

cc (by email):
Serge Imbrogno, Deputy Minister of Energy
Alena Thouin, Deputy Director, Legal Services Branch, Ministry of Energy

Enclosure

FAIR HYDRO TRUST

FINANCIAL SERVICES MANAGER'S REPORT (AS OF DECEMBER 31, 2017)

The following is a summary of the key activities of the Financial Services Manager (FSM) under the *Ontario Fair Hydro Plan Act, 2017* which Ontario Power Generation Inc. (OPG) assumed in 2017. More details on the trustees, capitalization and financing structure are outlined in OPG's Financing Plan dated December 18, 2017.

I. Financing Entity and Financing Structure Implementation[1]

Financing Entity and Trustees

- Computershare Trust Company of Canada was appointed by OPG as the issuer trustee (Computershare or Issuer Trustee).
- Fair Hydro Trust (FHT) was established as a separate financing entity by the Issuer Trustee through a declaration of Trust. It is essentially 100 percent debt financed, with minimal equity as outlined in Table 1.
- BNY Trust Company of Canada was appointed by OPG as the indenture trustee (BNY or Indenture Trustee). The Indenture Trustee acts on behalf of all specified creditors of FHT.
- FHT appointed OPG as its agent to provide services and perform duties in planning, implementing and administering debt financing for FHT.

Redacted - Commercially Sensitive

- **Master Trust Indenture (MTI)** – governs the terms of the debt issued by FHT, the order of payment and the collateral structure for all FHT obligations to all specified creditors.
- **Change of Law Protection Agreement** – provides assurance to specified creditors that upon the occurrence of a protection event, the Province of Ontario will fund all approved obligations, with limited rights to acceleration of payments.

[1] All activities and agreements outlined in section I occurred/were executed in December 2017.

- **Change of Law Process Agreement** – outlines the procedural requirements between the Province and OPG with respect to issuing debt that benefits from the limited guarantee under the Change of Law Protection Agreement.
- **Master Transfer and Servicing Agreement (MTSA)** – provides for the IESO's transfer of specified portions of the Regulatory Asset, and upon such transfers FHT acquires an Investment Interest. The agreement also describes the servicing obligations of the IESO.
- **Management Agreement** – Issuer Trustee delegates to OPG as FSM all powers and duties of managing FHT.

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IV. Cash Flow Requirements and Bank Accounts

Pursuant to the MTSA between FHT and the IESO, the IESO is required to pay FHT's carrying costs in accordance with *Ontario Regulation 206/17 General Regulation*. In 2017, carrying costs of $6.6 million were funded by the IESO.

In December 2017, the following bank accounts were established in the name of the Indenture Trustee pursuant to the requirements of the MTI:

- Fair Hydro Collection Account
- Fair Hydro Interest Accumulation Account

- Fair Hydro Principal Accumulation Account
- Fair Hydro Program Cash Reserve Account
- Fair Hydro Refinancing Account
- Fair Hydro IESO Cash Reserve Account

V. Financial Services Manager's Fees

On December 15, 2017, OPG submitted its proposed fee to the Ontario Energy Board (OEB) for the period of January 1, 2018 to March 31, 2019. The application proposes a base fee component of \$2.75 million plus a variable fee component of ± \$2.25 million. The total proposed fee is in the range of \$0.5 million to \$5 million.

VI. Subsequent Events

This section summarizes the key activities that occurred subsequent to December 31, 2017 and through the date of this report.

Redacted - Commercially Sensitive

2017 FSM Fees Application

On February 28, 2018, OPG's proposed fee of approximately \$5.7 million for the period of June 1, 2017 to December 31, 2017 was submitted to the OEB.