

May 15, 2018
FAIR HYDRO PLAN UPDATE
REASON FOR REPORT

The purpose of this submission is to provide an update to the Audit & Risk Committee (ARC) on the Fair Hydro Trust's (FHT or Trust) financing activities and OPG's fees as Financial Services Manager filed with the Ontario Energy Board (OEB) to-date.

CONCLUSIONS

This report is for information purposes of the ARC only.

HIGHLIGHTS
FHT's financing activities

In April 2018, the Trust issued its second tranche of senior notes in the amount \$400 million. The 20-year notes bear a coupon interest rate of 3.52 percent and an effective interest rate of 3.60 percent, payable semi-annually until maturity in May 2038. The proceeds were used to repay the majority of the outstanding balance of the senior warehouse facility. Following the repayment and debt issuance, the warehouse facility had \$12 million outstanding and the senior long-term debt of the Trust totalled \$900 million. The following table summarizes FHT's debt tranches issued to-date.

FHT Term Debt	April 2018 Series 2018-2 20-year term		February 2018 Series 2018-1 15-year term		TOTAL ALL SERIES	
	Coupon %	\$M	Coupon %	\$M	Weighted Average Effective Interest %	Total Term Debt as at Apr 30, 2018 \$M
Average term of all series = 17.3 years						
Senior (Capital Markets – 51%)	3.52%	400	3.36%	500	3.51%	900
Subordinated (OPG – 39%)	3.83%	306	3.64%	382	3.77%	688
Junior Subordinated (OPG – 10%)	4.21%	79	3.96%	98	4.12%	177
Total/ Weighted Average %	3.71%	785	3.53%	980	3.67%	1,765

Refer to Appendix A for a summary of FHT's April 2018 senior term debt issuance. OPG expects the Trust to issue its third tranche of senior debt during the third quarter of 2018.

OPG's application for fees

OPG as Financial Services Manager is entitled to charge the Trust a management fee and to recover costs and expenses incurred by OPG on behalf of the Trust in relation to the establishment, management and administration of the Trust and its Investment Interest without margin.

2017 Management Fee

In February 2018, OPG submitted its proposed 2017 general fees to the OEB in the amount of \$5.7 million. Pursuant to the general regulation of the *Ontario Fair Hydro Plan Act, 2017* (the Act), OPG's general fee for 2017 consists of \$3.1 million plus recovery of all third party and certain direct costs incurred by OPG between June 1, 2017 and December 31, 2017 on behalf of the Trust, which totalled \$2.6 million. The recoverable costs are inclusive of direct costs of four OPG employees who

were dedicated exclusively to the Trust during 2017. OPG requested a written hearing for the application as the amount represents an immaterial financial impact to customers and the evidence is accompanied by written confirmation of the amounts included in the application from Ernst & Young, pursuant to the requirements of the general regulation of the Act.

2018 & Q1 2019 Management Fee

In February 2018, OPG supplemented its December 2017 application to the OEB to provide benchmark interest rates for the January 1, 2018 to March 31, 2019 period. The proposed benchmark rates will be used to determine the variable component of OPG's fee, calculated as 10 percent of the difference between the forecast and actual rates multiplied by the amount of the senior debt issued. The benchmark rates were based on a forecast of long-Canada bond rates, a forecast risk premium for Ontario long-term interest rates, and a risk premium for FHT. The variable fee is forecast to be +/- \$2.25 million for the period. In addition to the variable fee, OPG is allowed to earn an annual base fee equal to 7.5 basis points multiplied by the average debt outstanding, which is forecast to be \$2.75 million. The sum of the two components is in the range of \$0.5 million to \$5 million for the period. Given the formulaic nature of determining the general fee for this period, and the immaterial financial impact to customers, OPG requested that the OEB proceed without a hearing.

OPG's 2017 and 2018-March 2019 management fee applications are currently ongoing.

Submitted by:

"Original signed by"

Ken Hartwick
Chief Financial Officer & Senior Vice President – Finance

APPENDICES

1. Summary of Fair Hydro Trust April 2018 Senior Term Debt Offering