June 6, 2017

OPG Proposed Credit Agency Agenda – Structure and Key Factors

Presented by OPG Treasury Group

Purpose of this Document:

To provide an overview of the information that OPG would cover in a future presentation to the Credit Agencies that would assist in outlining the key factors to consider in determining an appropriate rating for the debt within the Fair Hydro borrowing Trust.

The structure includes a background on the funding requirements related to the Ontario governments Fair Hydro initiative, including the need for the borrowing, the structure of the borrowing, and the strength of the repayment sources.

Topic	Content and Message	Additional Information Sources
Section 1: Overview		
Purpose of the Required Borrowing	To access funding for the Liberal government's Fair Hydro Plan which provides a discount for Ontario ratepayers on their electricity bills for up to a ten year period. The discount will be funded by elimination of the Provincial Sales Tax and by borrowing by an OPG managed Trust entity.	General government and other public press releases.
Overview of the history of the Electricity market in Ontario	Provide a brief history of how the Ontario electricity market has evolved to its current state, including OPG's position and the influence of the provincial government.	
Chart of the current main Ontario Electricity	Highlight how the Ontario electricity market	General public information and IESO.

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market participants (Ratepayers - IESO – Receivers (Gens and Distributors)	operates, showing the Sellers, the central clearing point (IESO) and the Buyers. Purpose is to show key entities and their credit strengths.	
Chart revised to add Trust to the Process	Show how Trust will fit into the market. Effectively a financing entity to support the GA subsidies to ratepayers for up to ten years and then the financed amount will be repaid by 2047.	General public information.
Chart showing how Trust borrowing builds and then gets repaid (2017 - 2047)	Present the expected cash inflows and outflows from the Trust entity over the term of the program and what the impact will be on an average customer bill.	Market information from IESO, modelling inputs and output from OPG and banks.
Section 2: Trust Structure		
Chart showing the Trust's expected tranche structure	Overview of the various funding sources and expected percentages (Senior, Sub, other).	
Trust Manager - OPG	Key factors why OPG was chosen and is qualified to manage the Trust.	Government new releases. Jeff Lyash speech.
Trust's Assets and Liabilities	Overview of the financial statements of the Trust to highlight revenue, costs, assets and liabilities.	
Flow Chart of how the IESO requires money and Trust funds that need	Outline of the flow of monies from investors through the Trust to the IESO.	
Flow Chart of how the Ratepayer repays interest and principal	Outline the flow of funds from the ratepayer through IESO to the Trust and to the investors for repayment of interest and principal.	
Section 3: Trust Risk Mitigation and Security		

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Legislation creating asset claim on ratepayer	List the key points of the legislation that obligates the future ratepayer to repay amounts owed to the Trust.	Fair Hydro Legislation.
Conditions in Legislation to protect investors from potential future changes to the legislation	List mitigation protection from future Ontario governments changing the Fair Hydro legislation to the detriment of the Trust and its investors.	Legal opinion.
Economic Strength of Ontario (i.e. rate base)	Outline the strength and diversity of the Ontario economy and ability to repay amounts owed to the Trust.	Credit agency ratings reports.
Credit Strength of the IESO and the LDCs to collect amounts owed (including fair hydro repayment) and deal with defaults	Review of the credit structure of the IESO market rules to show how they minimize credit issues and the how losses are allocated among the market participants. Present the default history of market participants in Ontario electricity market. Overview of the strength of the credit structure of the LDCs. State the market rules mitigation actions for LDCs to minimize credit issues and to allocate losses among their ratepayers. Present the history of bad debt expense and allowance for doubtful accounts for 8-10 LDCs.	Public information on IESO market rules. Public information from LDC financial statements. OEB rate setting process. LDC Credit Reports.
Structural subordination in Trust	Review of the Senior Debt within the Trust repayment structure. To show that there is a large amount of sub-ordinate debt.	

Section 4: Financial Projections

Topic	Content and Message	Additional Information Sources
Base modelling projections and assumptions for Fair Hydro Plan.	Outline of the key model forecast parameters including market demand, generator and distribution charges, interest rates, rate discounts. The model highlights structure of how the debt builds up and is repaid over the term of the program. It also shows the percentage of the customer bill that would be allocated to the repayment of the Trust debt and interest.	Market information from IESO, modelling inputs and output as a joint OPG/Dealer bank effort.
Burden of repayment on future ratepayers	Show that the base case indicates that the future burden to repay the Trust debt is reasonable (< 10% of their total bill).	Market information from IESO, modelling inputs and output from OPG and banks.
Long term electricity demand information from the IESO	Expand on the long term electricity market parameters that provide the base input for the modelling.	Market information from IESO, long term energy plan etc.
Stress scenarios	Present a number of scenarios that would change the borrowing profile and the resultant impact on the future ratepayer bill. For example, lower market demand, higher interest rates.	
Section 5: Summary		
Government Lead Initiative	A majority government has dictated the Fair Hydro Plan.	General government and other public press releases.
Legislation Support	A majority government has dictated the Fair Hydro Plan and will enact supporting legislation.	General government and other public press releases.
Strength of the Ontario market from payment defaults (IESO, LDC)	Indicates the strong credit strength of the Ontario electricity structure and the credit mitigation measures.	Public information on IESO market rules Public information from LDC financial statements.

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		OEB rate setting process.
Senior debt has significant protection	50% sub-debt protection.	General public information and OPG information.
Trust Debt Credit Rating	Need for the Credit Agencies to provide an appropriate rating for the debt of the Trust.	Credit Agencies