Outstanding Business Issues – Ontario Fair Hydro Plan

Briefing Note

PURPOSE

Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Service and Performance Guarantees**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA and working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize to the extent possible , the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers
   - The Province is considering regulation changes to exempt the income arising as a consequence of the Fair Hydro Plan from PILs
   - As part of the OFHP, the financing entity will raise debt and acquire “investment assets” from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity
   - **Next Steps:**
     - The Ministries of Finance, OFA and OPG are working together to determine required regulation changes
     - Timing: [TBD]

3. **Equity Injection Process**
   - OPG will require equity injections on a monthly basis in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province

- The Ministry of Energy received appropriation for $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT
- **Next Steps:**
  - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
  - <u>Timing</u>: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June

4. Management Fees

- OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
- The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations which are currently in development
- OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements
- There are two components to the model proposed by OPG:
  - <u>Cost recovery:</u> the structure will also allow for recovery of costs, subject to OEB's prudence review. OEB and OPG are in discussions in order to develop a model that is consistent with OEB's processes.
  - <u>Performance management fee:</u> OPG has the ability to over-earn or lose depending on its cost of funds for sr. debt relative to a benchmark. Any savings / costs would be shared equally between ratepayers and OPG to +/-$1M. Above or below $1M, all savings / costs flow to ratepayers.
- **Next Steps:**
  - OPG and OEB will bring forward a recommended framework for developing management fees
  - <u>Timing:</u> For incorporation into regulations being brought forward in June