OPG Participation in Fair Hydro Plan
COMMUNICATIONS STRATEGY

Background

The *Ontario Fair Hydro Plan Act, 2017* (the Act) received Royal Assent on June 1, 2017. The aim of the Fair Hydro Plan (the Plan) is to reduce electricity bills for residential, farm, small businesses and other eligible consumers by refinancing a portion of the Global Adjustment (GA) costs over a longer time period.

The legislation appointed OPG as the Financial Services Manager (FSM) of the Plan and provides for OPG to establish a financing entity. The regulation under the Act provides details on the structural, operational and financial elements required to implement the Fair Hydro Trust (the Trust).

OPG's Board of Directors has conditionally approved its involvement with the Trust on commercial terms. OPG is in the process of establishing the Trust as the financing entity contemplated by the Act, which should be completed by December 2017. The Trust will refinance a portion of GA payments and spread recovery of these costs over a longer period of time. The Trust is structured as a ring-fenced, special purpose vehicle that would operate outside OPG's regular operations. Through this ownership and OPG's control over the key activities of the Trust, the company expects to consolidate the financial results of the Trust.

The Trust will periodically purchase an investment interest in the deferred GA costs from the IESO. In order for the Trust to finance the deferred portion of the Global Adjustment costs, it will incur senior debt from capital markets and subordinated debt from OPG. The Province is expected to provide 44 per cent of the total funding requirement through an equity injection in OPG. OPG expects to provide 5 percent of the total funding requirement through its subordinated debt investment in the Trust.

The first set of transactions of the Trust is expected to take place in the 4th quarter of 2017. As of July 1, 2017 customer bills (based on a typical Ontario customer) were reduced by a total of 25% including the rebate of the Provincial portion of the HST and the removal of some other charges from the bill. Beginning May 1, 2018 customer bill increases will be limited to the rate of inflation for the next four years.

It is worth noting that market research indicates that for the first time in a while hydro rates were not the top concern among Ontario voters polled in the last quarter. This change in public sentiment may be related to the reduction in ratepayers' bills due to the Fair Hydro Plan.

Reputational Risks

- OPG could be seen as partisan, and an enabler of a re-election bid.
- OPG's interest earnings and management fees from the program and the use of the Province's equity injections into OPG could create a backlash if OPG (and the shareholder) is seen to be generating significant revenue at the expense of ratepayers. This will become more evident over time, as OPG's financial reports will document the performance and profit.
- Critics say, based on an outdated Financial Accountability Office report, that if the Fair Hydro Trust was financed through government, instead of the electricity market, it would save ratepayers up to $4B in estimated extra interest payments.
- Longer term, as repayments start to be built into rates, OPG could be seen as the cause of these increases. The Debt Retirement Charge, for example, became known to some as an "OPG Charge."

- The Trust, when consolidated, will result in higher net income for OPG but will dilute the ROE due to the higher equity needed to support the program. In addition the consolidated debt from the trust could place further pressure on OPG credit rating metrics.
- Under the Plan, rates will start to see significant increases shortly after OPG files its next rate application to the OEB, which could tie OPG to rate increases that aren't its doing.

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