ONTARIO POWER GENERATION

AGENDA
SPECIAL COMMITTEE
Friday, June 2, 2017
7:00 a.m. – 8:00 a.m.
Conference Room #2, 19th Floor
700 University Avenue, Toronto

Conference Call number:
North America Toll Free: 1-888-402-9166
GTA: 416-933-8665
Conference ID: 9203771#

CONSTITUTION OF MEETING	*7:00 a.m.*

1. **Constitution of Meeting** — George Lewis
   a) Approval of Agenda
   b) Declaration of Conflicts of Interest

2. **Minutes of Meeting/Actions Arising from the Minutes** – May 5, 2017 — George Lewis

FOR INFORMATION ITEMS

3. **External Developments to Date** — Jennifer Rowe

   The purpose of this item is to update the Committee on:
   - media coverage of the Fair Hydro Plan to date;
   - Legislative Committee Hearings on the *Ontario Fair Hydro Plan Act* (verbal); and
   - the report by the Financial Accountability Officer on the Province's Fair Hydro Plan — Carlo Crozzoli

4. **Update from Ministry Rate Mitigation Working Group Meeting** — Ken Hartwick

   The purpose of this item is to provide an update to the Committee on developments and/or progress on matters since the May 12th Board meeting, including :
   - the OPG Chair's letter to the Minister of Energy advising of the Board's approval with conditions;
   - OPG's submission to the Province on the requirements for the regulations in order for the Global Adjustment deferrals to be financeable and for the desired accounting treatment to be obtained;
   - the response of the Provincial Auditor General; and
   - the status of the Province's determination of the Fair Allocation Amount for refinancing

5. **Timeline for Fair Hydro and OPG Corporate Debt Programs** — John Lee

   The purpose of this item is to update the Committee with respect to the Fair Hydro Plan financing timeline and the preliminary timeline for the OPG corporate debt program.

6. **Next Meeting** – June 16, 2017
   - Update from Ministry Rate Mitigation Working Group Meeting
   - Report on the Fair Allocation Amount as determined by the Province

TERMINATION OF MEETING	*8:00 a.m.*

Item No. 1

Constitution of Meeting

a) Approval of Agenda
b) Declaration of Conflicts of Interest

Ontario Power Generation

SPECIAL COMMITTEE OF THE BOARD

OPG Confidential Exclusive

Minutes of a meeting of the Special Committee of the Board of Directors of Ontario Power Generation, held by teleconference call, on May 5, 2017, at 8:00 a.m.

Present	
George Lewis	Committee Chair – In Person
Bernard Lord	Member
Bill Coley	Member
Lisa DeMarco	Member
Yezdi Pavri	Member – In Person
Peggy Mulligan	Member

being a quorum of the Directors of the Committee, and

Jeffrey Lyash	President and Chief Executive Officer
Catriona King	Vice President, Corporate Secretary
Carlton Mathias	Assistant Corporate Secretary

The following individuals were in attendance:

Ken Hartwick	Chief Financial Officer and SVP - Finance
Chris Ginther	Chief Administrative Officer
Carlo Crozzoli	SVP Corporate Business Development & Strategy
Jennifer Rowe	SVP Corporate Affairs
John Mauti	Vice President, Chief Controller & Accounting Officer
John Lee	Vice President, Treasurer
Les Wong	Senior Counsel, OPG Law Division
William Orr	Fasken Martineau
Aaron Atkinson	Fasken Martineau
Tracy Brennan	Ernst & Young
Laney Doyle	Ernst & Young
Brittany Keenan	Ernst & Young
Donnie Persaud	CIBC
Andrew Maciel	CIBC
Katrina Niehaus	Goldman Sachs
Akila Raman	Goldman Sachs
David Dal Bello	RBC
Ian Benaiah	RBC

1. Constitution of Meeting/Approval of Agenda

   Notice of the meeting having been given to all the members of the Special Committee and a quorum of the members being present, the Committee Chair declared the meeting regularly constituted for the transaction of business on May 5, 2017 at 2:00 pm.

   a) Approval of Agenda

   Mr. Lewis proposed a change to the agenda such that the order of item no. 4 (Financial Advisors Report on the Financing Program) precede item no. 5 (Legal and Operating Governance Framework for OPG's Paricipation in the Fair Hydro Financing Trust)

The information contained in this document contains sensitive information which could raise concerns related to privacy matters, employee matters and /or security and may further impact on the financial or commercial interests of OPG, the Ontario Government or other third parties. In some instances solicitor-client privileged information is also contained herein. This information must be treated in the strictest confidence and must not be reproduced in any fashion without the express prior written consent of OPG. In keeping with OPG's corporate standard for the protection of confidential information, this document should not be removed, or left unattended or accessible to unauthorized persons.

Upon a motion duly made, seconded and unanimously agreed to, it was RESOLVED THAT:

- The agenda for the May 5, 2017 meeting of the Special Committee was approved as amended.

b) Declaration of Conflicts of Interest

The Committee Chair asked if there were any real, potential, or perceived conflicts of interest to disclose and none were declared.

2. Minutes of Meeting/Actions Arising from the Minutes

Upon a motion duly made, seconded and unanimously agreed to, it was RESOLVED THAT:

- The minutes of the May 1, 2017 meeting of the Special Committee were approved.

There were no outsanding actions.

3. OPG Participation in Ontario's Fair Hydro Plan

Mr. Lyash gave a brief update to advise that the Province still plans to introduce the legislation in the Provincial Legislature on May 11, 2017.

Mr. Hartwick spoke to the written materials provided, summarizing the three core matters underpinning OPG's Business Case for participating in the Global Adjustment (GA) refinancing component of the Province's Fair Hydro Plan:

1. The Legislation – to be introduced on May 11, 2017th, that among other things establishes the GA as a regulatory asset, establishes OPG as the financing entity and establishes the financing processes. A number of matters important to OPG were "punted" to be ironed out in regulations;
2. A series of Regulations – these will not be completed and passed until closer to the end of June 2017. OPG has prepared a document to submit to the Ministry of Energy identifying the required content and language necessary to support the OPG Business Case, as well as the financing and accounting requirements;
3. A determination of the quantum of the Global Adjustment deferral that underpins the overall 25% reduction to consumer bills and the trajectory of subsequent increases to consumers over time. OPG has done its own analysis but it is the Province's responsibility for making this determination and providing OPG confirmation. The Ministry has retained Navigant consulting to conduct this validation.

The Committee asked a number of questions to which Mr. Hartwick responded. Included was a question on whether there are any anticipated Regulations that are so critical that if they are not issued in substance as OPG requires such would consititute a 'showstopper' for OPG's continued participation in the Fair Hydro Plan. Mr. Hartwick responded that in his view it is unlikely that such a circumstance would occur since the Province needs the debt to be financeable and the accounting to permit consolidation in OPG. These two issues should act as a natural check on the Province that the Regulations contain the provisions required by OPG and the Trust. However, he agreed that a risk still exits. Mr. Hartwick went on to advise that to mitigate this risk, OPG has prepared a list of requirements for the regulations, which reflects the input from OPG's respective legal, financing, and accounting advisors, and will be submitting it to the Ministry subject to the Special Committee's recommendation and the Board's approval of OPG's participation.

The Committee asked whether the Province understands that OPG's participation in the Fair Hydro Plan will have a positive impact on OPG's earnings, and Mr. Hartwick confirmed that the Province does understand this.

With respect to the Material Contract Term Sheets at Appendix 2 to the Management Memo and the "Redemption Rights" term relating to the OPG Equity Subscription Agreement, the Committee Chair recommended that it's more appropriate to indicate OPG's right to redeem the Class A shares as a right that may exercised rather than one that is expected to be exercised. Mr. Hartwick agreed.

The Committee asked Ernst & Young a number of questions to which Ernst & Young responded. In response to a question, Ms. Brennan of Ernst & Young advised that based on everything she has seen to date in relation to the Fair Hydro Plan, the requirements have been laid out clearly for the Province, and if these carry through to the upcoming Regulations and other documents, she is comfortable that the financial position of the Financing Entity can be consolidated into OPG's financial statements.

The Committee asked a number of further questions about: the potential for future governments to reinstate the HST on electricity, changes to OPG's Articles of Amalgamation to permit OPG to issue public debt, and OPG's ability to participate in distributed generation as mitigation for future risk, to which Mr. Lyash, Mr. Hartwick and Mr. Crozzoli responded.

4. Financial Advisors Report on the Financing Program

The representatives from OPG's three financial advisor companies, CIBC, Goldman Sachs, and RBC Capital Markets, spoke to the written materials provided. In particular, the representatives noted the following:

- They are very confident that based on the proposed Legislation to be introduced on May 11th, the program is financeable in the capital markets
- The Legislation has the right framework for the program financeability. All of the needed building blocks are in the draft legislation and the Regulations to be issued
- The Provincial guarantee is critical to the financeability of the program
- The Province is amenable to the form of the Provincial guarantee that the financial advisors have said is needed. The Provincial guarantee will survive any change in the Legislation
- The financial advisors are targeting a AAA rating but even if the debt is rated AA, it will still be highly successful in the capital markets
- There is ample capacity in both the Canadian and US markets for this type of structured debt
- This type of structured debt and the dollar value although not typical for the utility industry, it is not unusual in the broader capital markets
- The objective would be to select 2 rating agencies to rate the debt and target obtaining the highest ratings across all tranches of debt
- Investors will have a very positive view that OPG as finance manager of the debt program will also invest the equity funds from the Province in the subordinated debt. Investors will see this as an alignment of interests among them, OPG, and the Province

The Committee asked a number of questions to the financial advisors, including: whether there was sufficient capital markets interest in financing this year; the capital markets interest 3 years out; any lingering fall out from the 2008 Commerical Paper crisis colouring capital markets risk appetite, and the nature of the Provincial Guarantee.

The three Financial Advisor companies' representatives responded to the Committee, then along with the Ernst & Young representatives, left the meeting.

5. Legal and Operating Governance Framework for OPG's Patricipation in the Fair Hydro Financing Trust

   The materials were taken as read.

6. Special Committee Report to Board

   Mr. Lewis advised that there was a very recent development to bring to the Committee's attention. He asked Mr. Ginther to update the Committee.

   Mr. Ginther advised that on May 4th, the Deputy Minister of Energy advised OPG's CEO that the Province would not be furnishing any legal opinion from its legal advisors confirming the constitutionality of the Legislation. Pressing the Province to understand this change in position,Mr. Ginther advised that it is the Province's positionthat it would never seek to pass legislation that it knew in advance would be found unconstitutional.

   Mr. Ginther advised that in light of the Province's position, OPG Management had the following considerations for the Committee in respect of a Committee recommendation to the Board on OPG's participation in the Fair Hydro Plan:

   - In the absence of seeing a confirming legal opinion, a financial and reputational risk analysis is appropriate.
   - OPG has no evidence to believe that the Legislation is not constitutional
   - In respect of a financial risk assessment, given all the financeability protections in OPG's favour, the financial risk to OPG is low if, in the event, in turns out the Legislation is unconstitutional
   - In respect of reputational risk to OPG, the risk is moderate. The Province would likely bear the brunt of the reputational damage of having knowingly passed unconstitutional legislation, but OPG would be caught up in the situation
   - Even if OPG were to see a legal opinion to the Province confirming the constitutionality of the Legislation, this would have provided only incremental comfort to OPG in respect of a decision to participate in the Plan. The legal opinion would likely have a number of qualifications and would have been addressed to the Province, specifying it was not intended to be relied upon by any third party
   - OPG considered whether it should attempt to obtain its own legal opinion but this was ruled out because the Province controls all potentially relevant data
   - As the Legislation goes through the process to enactment, legislative debates will likely surface any constitutional issues that the Province may need to respond to publicly
   - In respect of the financing aspects of the Fair Hydro Plan, at some stage the Province will likely need to represent the lawfulness of the Legislation

   Mr. Lyash advised that Management is raising this issue with the Committee as the Province's position, as conveyed last night, is different from the information in the Board memorandum prepared by OPG Management. However, in his view, the mitigation to this concern is in the requirements for the regulations and other agreements.

   Mr. Orr, independent legal counsel to the Committee, advised that he has been engaged in this issue with the Special Committee Chair Mr. Lewis and with OPG Management. In his view, the Province's refusal to provide a legal opinion on the constitutionality of the Legislation does not imply that the Legislation is unconstitutional.

Substantial discussion followed and the Committee asked a number of questions and raised a number of concerns, including: risk to OPG proceeding without some form of written confirmation from the Province to address this risk, the basis for the Province's validation of the Fair Allocation Amount, and the "terms of the Provincial Guarantee and the protections for OPG if there is a change in government and/or change in legislation/ and whether OPG would choose to go down this path on its own.

In response to questions put to him, Mr. Orr responded that OPG may ask for some representation from the Province but it is not required to demonstrate that the Committee and the Board have been diligent and acting lawfully; the Provincial Guarantee has absolute clarity and validity in law and protects OPG; and banks rely heavily on the Province of Ontario and given the volume of debt will not abrogate.

Mr. Lyash, Mr. Hartwick and Mr. Ginther responded to questions stating: OPG's own analysis supports the the valuation but it is the Province's accountability to determine and confirm and this has been made a condition of OPG Board approval; if there is a challenge down the road OPG is protected by the Provincial Guarantee.

The Committee requested OPG Management continue discussions with the Province regarding a representation letter to OPG confirming that the Province is undertaking legislation that is lawful. OPG Management agreed to do this. (*)

The Committee also asked Mr. Orr to further consider and advise the Committee on the sufficiency of OPG directors' indemnities in respect of any approvals for OPG to participate in the Fair Hydro Plan. Mr. Orr agreed. (*)

Mr. Lewis, Chair of the Special Committee said that a lot of solid work and progress has been undertaken to move the plan for OPG's participation forward. He also advised that in his view the Special Committee was not in a position to make a recommendation to the Board and proposed that this meeting of the Special Commitee be adjourned while OPG Management continue discussions with the Ministry, and reconvene the meeting on Tuesday, May 9, 2017 so that OPG Management can report on its efforts in obtaining a representation letter from the Province as to the lawfulness of the Legislation.

7. In Camera Session with Independent Legal Counsel

OPG Management left the meeting, and the Committee, and Ms. King met independently with Mr. Orr and Mr. Atkinson of Fasken Martineau, where the Committee continued its discussion regarding the conditions that the Special Commtitee would be satisfied with in making a recommendation to the OPG Board.

8. Adjournment
The meeting was adjourned at 10:00 a.m. following the conclusion of the in camera session until 7:00 a.m. on Tuesday May 9th.

9. Continuation of Meeting

Meeting reconvened at 7:00 a.m. on Tuesday May 9, 2017. Aaron Atkinson from Fasken Martineau LLP, independent legal advisor along with Bill Orr, joined the meeting.

Mr. Lewis referenced two new documents which had been circulated to the Committee in the evening of May 8th:

- A draft letter from the Ontario Minister of Energy to OPG regarding the legislation to be introduced on May 11, 2017 (see Appendix 1 to these minutes)

Redacted - S/C Priv.

Mr. Ginther spoke to developments and assessments undertaken since the meeting adjourned on May 5th and advised that:

- he had asked the Ministry of Energy's internal chief legal officer if she is aware of anything which may make the Legislation unconstitutional and she answered No
- in respect of the draft letter to be provided by the Minister of Energy to OPG's Board Chair, the Province will not provide any representation or warranty. However, the Province is prepared to provide a letter substantially in the form of the draft letter at Appendix 1 to these minutes
- having considered all of the circumstances, OPG Management is of the view that there is sufficient value in the debt to support the financing aspects of the Fair Hydro Plan
- the financing program will not spill over into the realm of being a general tax outside the taxing authority of the Province. OPG will confirm its views in this regard when it is provided Navigant's report on the Fair Allocation Amount as previously discussed in recent Committee meetings
- OPG had again spoken with its three financial advisors and the absence of seeing a legal opinion of the Province's legal advisors respecting the constitutionality of the Legislation is not a concern to them around the financeability of the program.

The Committee asked a number of questions to which Mr. Hartwick and Mr. Ginther responded. In response to a question, Mr. Hartwick advised that OPG Management takes great comfort in that it will have the option, on a monthly basis, to determine whether it will buy the regulatory assest from the IESO. OPG will work with the rating agencies on a monthly basis to asssit in making the determination of buying/not buying the asset. OPG expects that before making each monthly purchase, it will also first obtain a rating agency confirmation with respect to the unchanged credit risks of the transaction.

In response to a question from the Committee, Mr. Orr advised that while the letter is not a full representation and warranty letter, in his opinion it should give OPG a substantial amount of comfort.

The Committee asked if OPG expects that it will have to give a representation to the financing dealers as to the constitutionality of the Legislation. Mr. Hartwick advised that OPG will not have to. Mr. Orr advised that typically what would be described are various types of risks and included in the list would be a risk around the lawfulness of the Legislation.

Mr. Lewis spoke to the draft report of the Special Committee and thanked Committee members for their input on the document. Mr. Lewis advised that when the the draft report is finalized it will incorporate references to the Torys – Fasken legal memo and the draft letter from the Minister of Energy, both referenced in section 9 above, as documents having been reviewed by the Committee. Mr. Lewis asked the Committee if it is comfortable with the analysis done to date and moving forward with a recommendation to the Board to approve OPG's participation; if so, he proposed an amendment to the motion to add receipt of the Minister's letter as a condition of approval.

Hearing no dissent, Mr. Lewis made the motion,

(i) Motion regarding OPG's Participation in the Ontario Fair Hydro Plan

Upon a motion duly made and seconded, it was RESOLVED THAT:

- The Committee recommends that the Board of Directors approve:

a) OPG's Business Case for OPG's participation in the Fair Hydro Plan as set out in Appendix 8 of this memo;
b) The establishment of the Financing Entity and other organizational bodies in respect of the Financing Entity as well as the legal and operating governance framework for the Financing Entity;
c) The implementation of certain financings of the Financing Entity by OPG, as Financial Services Manager of the Financing Entity, consistent with the strategy articulated in Appendix 5 of this memo,
d) OPG Management concluding the contractual arrangements and structural documents to implement the Fair Hydro Plan, including the financings of the Financing Entity, as set out in this Board memo,
e) The resolution attached as Appendix 11,
f) all of the approvals above are subject to the following conditions:
    (i) the Province of Ontario enacts the legislation provisionally titled, "the Ontario Fair Hydro Plan Act, 2017" and its attendant Regulations that are consistent with OPG's requirements and objectives for participating in the Fair Hydro Plan, as outlined in this memo;
    (ii) OPG's Articles of Amalgamation are amended by the Shareholder to permit OPG to participate in the public debt markets without restrictions;
    (iii) the Fair Allocation Amount eligible for refinancing is confirmed by the Province in writing, and
    (iv) there is evidence in writing from the Province of Ontario that the Fair Hydro Plan, including the Fair Allocation Amount is determined by the Province's legal advisors to be Constitutional,

g) That OPG Management provides regular updates to the Special Committee in respect of the foregoing in the form, manner, regularity and duration requested by the Special Committee.

As amended by removing f(iv) and adding the following:

"(iv) OPG receives a letter from the Minister of Energy, on behalf of the Province, following the introduction of the Proposed Legislation to the effect that, among other things, the Province has addressed legal imperatives of the Ontario Fair Hydro Plan by creating a mechanism to take into account the need to align the costs attributable to future rate payers with benefits to those same ratepayers, substantially in the form of the draft letter provided to OPG on May 8, 2017;

(v) evidence satisfactory to the Special Committee as to the enforceability of the Guarantee; and"

Ms. DeMarco abstained from voting on the motion.

(ii) Motion regarding Legal and Operating Governance Framework

Upon a motion duly made and seconded, it was RESOLVED THAT:

- The Committee recommends that the Board of Directors approve the legal and operating governance framework as outlined in the appendices to this memorandum.

Ms. DeMarco abstained from voting on the motion.

10. Termination of Meeting

The meeting was terminated at 7:45 a.m.

Special Committee Chair Vice President, Corporate Secretary

Asterisk (*) denotes action to be taken

Fair Hydro Act – Legislative & Media Summary

Overview

Bill 132, the Fair Hydro Act, was introduced in the Ontario Legislative Assembly on May 11, 2017. Minister Thibeault held a media conference immediately following the introduction. At that time, the Minister indicated that he wants this Act passed and the discount to ratepayers to be in place by July 1, 2017.

OPG President & CEO Jeff Lyash was present at the media conference and answered a few questions.

However, OPG's role in the Act was not the focus of the press conference; rather, a leaked cabinet document that the Progressive Conservatives had received from a whistleblower was the main topic of discussion.

Following the media conference, OPG proactively reached out to both the Progressive Conservatives and New Democratic Party Critics to offer to answer any questions about OPG's role in the legislation. A meeting with Progressive Conservative Energy Critic Todd Smith was held on May 17th. A meeting with NDP Critic Peter Tabuns will take place on June 8th (was delayed due to scheduling conflicts).

The goal of these meetings is twofold. One, to ensure opposition understand OPG's role, and also understand OPG is implementing policy, not creating it. Which is a goal of the communications strategy. These meetings are part of ongoing stakeholder outreach to ensure opposition parties are aware of OPG.

Media Summary:

OPG has played a secondary role in the lead up to and introduction of Ontario's Fair Hydro Plan over the last several weeks. There have been no calls to the media desk and the main OPG focus has been that OPG will borrow money and manage the separate entity and that this trust will be separate from OPG operations. In early May, the leak of confidential cabinet documents to the Official Opposition set off a round of stories that reported significant long term rate hikes were in the future after a few years of short term rate relief. The Government countered with the analogy of amortizing a mortgage to a longer term in order to provide rate relief for customers now.

Jeff Lyash's May 22 presentation to the Government Committee studying the bill did not result in media coverage and was overshadowed by comments made by the Financial Accountability Officer and the Auditor General. Both watchdogs reported that the Government was borrowing heavily to subsidize lower electricity rates now. And, that the cost will be billions of dollars for Ontarians in future. There was also speculation that the Government was moving debt off of its books by having OPG manage the special entity.

Focus of Opposition Critiques

Both Opposition parties described the Act as a plan that does nothing to address systemic problems in the electricity system and for increasing rates to ratepayers over the long-run. The Progressive Conservatives also asked a lot of questions about what the interest rate is expected to be and detailed questions about how the bonds would be issued. The NDP focused their criticism on the lack of role for the Ontario Energy Board and the Auditor General.

The bill was debated in the Legislature the following week and the Liberal Government passed a time-allocation motion to ensure passage before the summer recess (the legislative assembly is scheduled to rise on Thursday, June 1st).

The Standing Committee on Justice Policy held three days of Public Hearings on the Bill at Queen's park during the week of May 23rd. Ontario Power Generation received a letter from the Provincial Conservative Critic Todd Smith requesting Jeff Lyash to appear before the Justice Committee. On Tuesday, May 23rd OPG's President and CEO Jeff Lyash and SVP of Corporate Strategy and Business Development Carlo Crozzoli appeared before the Committee.

Most of the questions directed at OPG were related to OPG's role in the Act and OPG's experience in managing these types of funds. The main criticism from the Opposition has been to question why OPG, as opposed to the Ontario Electricity Financing Corporation (OEFC), was chosen to manage the fund. These are matters of policy, and there was a general understanding that OPG was implementing, not creating, policy.

OPG responded that we were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large segregated monetary funds, including those for nuclear decommissioning and used fuel management, and raising debt in capital markets (i.e. Lower Mattagami).

The Committee concluded its hearings last week and is conducting clause by clause on Monday, 29th and is expected to conclude 3rd Reading Debate before June 1, 2017.

During the hearing Auditor Bonnie Lysyk expressed her views and concerns about the program and the accounting measures. The Financial Accountability Officer also released a report that outlined his views on future costs to consumers. These both have the potential to create reputational issues in the future that will have to be managed.

Media Samples:

Below are three articles that represent media coverage of the Fair Hydro Plan to date.

Ontarians to face hydro-bill surge, PCs say; Leaked cabinet document indicates big long-term rate hikes are in works, but Energy Minister says 'confidential' draft is out of date

- **The Globe and Mail**
- **Fri May 12 2017**

- **Page:** A4
- **Section:** News
- **Byline:** JUSTIN GIOVANNETTI

Ontarians could end up paying significantly higher electricity bills over two decades in exchange for short-term relief, according to an early draft of a government plan to cut hydro rates by 25 per cent this year.

The average Toronto Hydro consumer would save almost $2,500 through to 2025, at which point they would pay an extra $4,800 over the following 22 years, according to the six-page draft provided to reporters by the Progressive Conservatives on Thursday.

The cabinet paper is stamped “confidential” and was released only hours before Energy Minister Glenn Thibeault was set to unveil the government’s plan to cut hydro rates and cap increases at the rate of inflation for the next four years. Mr. Thibeault’s office said the document was outdated but did not provide more current numbers.

Premier Kathleen Wynne’s popularity has waned over the past year as rapidly increasing hydro rates have become a political liability for the Liberals only a year out from the next general election. To reduce rates, the government has decided to refinance electricity costs over 30 years, lowering bills in the first few years but increasing costs in later years.

“This fair hydro plan will cost more and it will take longer to pay back,” Mr. Thibeault said Thursday. He dismissed the release of the cabinet document as a political ploy by an opposition that has yet to announce its own hydro plan. “The documents that we provide to cabinet are topics for discussion,” he said.

“And, you know, plans change.”

Todd Smith, the PC Party’s energy critic, told reporters the plan was leaked by a disaffected Energy Ministry employee. “We’ve seen this government interfere time and time again in the electricity sector. They can’t keep their fingers out of the pie,” he said, blaming the Liberals for high power prices.

New Democrat Peter Tabuns also said that the plan, which the government hopes to move through debate at Queen’s Park by the end of next week, is a mess. “This is a ‘get through the election’ plan. That’s what this is all about,” he said.

The leaked plan shows the average monthly bill in Toronto falling from $158 last year to $123 this year. The plan would keep hydro costs off the political radar for years, potentially through to the following general election in 2022, at which point monthly costs would have grown to just $142. The relief for consumers ends after that, with bills increasing quickly to $215 a month by 2028. For the following two decades, Ontarians would see a charge of about $20 on monthly bills to repay the almost $28-billion in debt accrued to lower rates for almost a decade.

Mr. Thibeault vowed there would be no rapid increase in rates like those envisioned in the leaked plan and said prices would remain low for years to come. "We will continue to work to pull costs out of the system to ensure that any graph, that any line, will continue to plateau," he said.

The cabinet document charts electricity prices out to 2050, and many of the assumptions in the plan could change to lower future costs borne by consumers, according to a senior official who spoke to The Globe and Mail on condition of anonymity. A number of factors, including interest rates and natural gas prices, could alter hydro prices decades from now.

The billions of dollars in extra debt needed to lower rates after 2017 will not appear on the government's books but will instead be raised by Ontario Power Generation, the Crown corporation responsible for generating about half the province's electricity. While the province and OPG will provide some of the money for the plan, most of it will be raised by selling debt to private investors, said Jeff Lyash, OPG's chief executive.

Mr. Lyash said OPG can assure access to capital markets and "act like a financial services manager to make sure that whatever gets implemented here has the right underlying basis. ... I would expect nominal rates to be fairly low. We think of this as nominally 5-per-cent interest rate depending on how this develops over time."

Liberal hydro plan to cost $45B and save electricity ratepayers $24B: watchdog; Net cost of Liberal hydro plan $21B: watchdog

- **Canadian Press**
- **Wed May 24 2017**
- **Section:** Ontario
- **Byline:** Allison Jones

TORONTO - Ontarians will be paying a net $21 billion over the next three decades to get short-term savings under the Liberal government's hydro plan, which is designed to make the province's bottom line look better, two watchdogs said Wednesday.

Both the financial accountability officer and the auditor general weighed in on the plan to lower hydro rates, which have roughly doubled over the last decade.

A report from the budget watchdog found that the government will spend $45 billion over the life of its hydro plan to save people $24 billion on their bills over the next approximately 30 years.

The $45 billion, however, is mostly the cost of funding an eight-per-cent rebate that took effect in January and assumes balanced budgets. If the government has to fund that rebate through debt, the cost could soar up to $93 billion, the report said.

Premier Kathleen Wynne promised to cut hydro bills in the province after widespread anger over rising costs helped send her approval ratings to record lows. Under the government's plan, Ontarians will see lowered hydro bills for the next 10 years, but will then pay higher costs for the following 20 years.

Legislation to cut electricity bills by 17 per cent on average - on top of the eight-per-cent rebate - is currently before the House and has to pass before the summer break begins June 1 if relief is to be delivered under the timeline the Liberals promised.

The hydro plan will lower time-of-use rates by removing from bills a portion of the global adjustment, a charge consumers pay for above-market rates to power producers. For the next 10 years, a new entity overseen by Ontario Power Generation will take on debt to pay that difference.

That means there will be no impact on Ontario's net debt - currently at about $312 billion - or annual surplus/deficit, said Auditor General Bonnie Lysyk. The auditor told a committee studying the hydro legislation Wednesday that it "sets a dangerous precedent."

"There are a lot of people investing a lot of time and money to set this up, structured in such a way that it doesn't affect bottom line," she said.

Energy Minister Glenn Thibeault has said OPG has expertise in managing hydro-related debt.

The OPG Trust is financing 55 per cent of that borrowing, with the province financing the rest. But the OPG Trust borrows at an average rate of 5.4 per cent, compared to the province's 4.5 per cent, the FAO noted. So if the government took on all of the refinancing, ratepayers could save $4 billion, the FAO concluded.

In light of those potential savings, NDP critic Peter Tabuns called the government's financing structure "puzzling."

"Why it's being set up in the special purpose vehicle, this little subsidiary of OPG is hard to understand," he said. "It may make provincial debt look better because it's been moved off (the government books), but that can be the only advantage. It's going to cost us a lot of money."

The Liberals have said after the initial cut to bills this year, rate increases will be held to inflation for the next four years. After that, the average bill will rise about 6.8 per cent a year until 2028, the FAO projected.

At that point, ratepayers will have to start paying back debt that will be accumulated in order to finance lower rates for the first decade. From then on, bills will be about four per cent higher than they would have been without the Liberal plan, Financial Accountability Officer Stephen LeClair said.

The cost of paying back that debt with interest - which the government has said will be up to $28 billion - will go back onto ratepayers' bills for about 20 years starting in 2028 as a "Clean Energy Adjustment."

The FAO estimated the cost of interest on that debt will be $21 billion, assuming a five-per-cent weighted average interest rate. If that rises to six per cent, ratepayers will end up paying $30 billion, LeClair projected.

Electricity bills in the province have roughly doubled in the last decade, due in part to green energy initiatives, and the government has said the goal of its hydro plan is to better spread out those costs.

"We've always said that the proposed Fair Hydro Plan will cost more over the long-term, but it will share the costs of our investments more fairly over a longer period of time, and lower bills by 25 per cent on average starting this summer," Thibeault said in a statement.

The FAO's $21-billion projection is in line with the government's estimates, Thibeault said, dismissing the FAO's "outlier scenarios" as extremely unlikely.

- **Length:** 755 words

David Reevely: Ontario Liberals jiggery-pokery on the hydro file means savings plan will cost twice as much as it saves

- **News - National Post**
- **Wed May 24 2017**
- **Section:** Canadian Politics
- **Byline:** David Reevely, Postmedia News
- Permalink

The jiggery-pokery the Ontario Liberals are using to cut hydro bills will eventually cost us almost twice as much as it saves, the province's budget watchdog reported Wednesday.

This is the "Fair Hydro Plan," the Liberals' answer to the constant drumbeat of "hydro, hydro, hydro" from the opposition, the plan that Premier Kathleen Wynne hopes will save her party from annihilation next year. It cuts electricity prices by 25 per cent for residential and small commercial customers now, and the future is the future's problem.

The Liberal plan is more consequential than the desolate nothings offered by the opposition. But in this case, desolate nothingness would be better.

The metaphor the government is using is that it's refinancing the mortgage on the electricity system, extending the payments on long-term energy contracts to lower prices right now. Refinancing isn't free, though, and now the financial accountability officer Stephen LeClair and his staff have put numbers on the Liberal plan: It'll save us $24 billion on our hydro bills now but cost us $45 billion in the end. So by the 2040s, we'll be out a total of $21 billion.

Dave Abel/Postmedia NetworkLiberal Energy Minister Glenn Thibeault outlines the Ontario Fair Hydro Plan at Queen's Park on Thursday May 11, 2017.

That money will go to lenders, who'll put up the money to cover the costs of the energy contracts as signed and then accept our extra payments over a decade or so. **The whole thing will be managed through the government-owned Ontario Power Generation utility, which keeps it off the province's books. (Auditor General Bonnie Lysyk, in a separate appearance before a Queen's Park committee Wednesday, said this is deceptive but it's legal.)**

"Temporary savings are achieved for electricity ratepayers by moving costs to the province and by deferring $18.4 billion in electricity costs for 10 years," LeClair said. "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21 billion in interest, which will result in higher electricity bills than under the status quo."

The provincial government will also forgo about $1.5 billion a year in sales taxes on electricity, the Wednesday report says. That's money out of the provincial treasury but left in Ontarians' pockets. Assuming the government never runs a deficit again that forces it to borrow, there's no net cost to that. That's an iffy assumption, obviously, but there's nothing unique about cutting this tax versus any other tax.

By 2027, the budget officer figures, electricity prices will be four per cent higher than they would otherwise have been, gobbling up the lower contract payments, the sales-tax cut, and more of ratepayers' money besides.

LinkedInStephen LeClair, Financial Accountability Officer, Financial Accountability Office of Ontario

The Liberals never pretended their purported fairness was bought for nothing. What makes the plan "fair," Wynne said in announcing it, isn't that it makes electricity cheaper but that it makes future Ontarians pay more and today's Ontarians pay less. What was unfair before, in Wynne's formulation, was that today's Ontarians were having to pay too big a share of the costs of modernizing the power system when tomorrow's Ontarians will also benefit.

Of course, we've had to wait for this watchdog report to find out just exactly how badly our children will be screwed so that we can have an easier time of it for the next four years.

Energy Minister Glenn Thibeault responded to LeClair's report by acknowledging it's accurate but there'll be a plan released this summer that lowers long-term expenses by reducing the amount of electricity we expect to buy. There's some evidence that Ontario won't need as much power as the currently operative plan calls for, so this is plausible, but don't expect a very radical difference.

Here's the thing. What would actually be fair would be to go back in time and make the Ontarians of the 1970s, '80s and '90s pay a little bit more for electricity, so as to keep the system in good repair. Power, in the glory days, was artificially cheap. Much too cheap. Unsustainably cheap. We paid too little then and we're making up for it now.

Yes, part of what we're paying for now is ill-considered green-energy contracts meant to spark a solar and wind industry in Ontario that never really caught. Part of it is from ditching dirty coal generation, which was a wiser decision but not a free one.

The Fair Hydro Plan is the Liberals' declaration that we're not quite up to the self-discipline they thought we were, and it's hard to say they're wrong

A lot of what we're paying for, though, is simply dragging Ontario Hydro back from the brink of financial and physical collapse. Decades of self-indulgence achieved that decrepitude and decades of self-discipline are the only way to undo it.

The Fair Hydro Plan is the Liberals' declaration that we're not quite up to the self-discipline they thought we were, and it's hard to say they're wrong: the parties' poll standings, a year out from the next election, are pretty good evidence for that. The Fair Hydro Plan addresses a big political problem for the governing party but it's terrible public policy. It exemplifies the exact attitude that got us into trouble in the first place.

The opposition Progressive Conservatives and New Democrats, for all their drum-pounding, have no meaningful alternatives.

"It's time for Kathleen Wynne to stop covering up the truth - under her plan, our hydro bills will go up," Tory leader Patrick Brown said, pouncing gleefully on the LeClair report. "Everything will cost more. This will have a devastating impact on household budgets and the economy."

This is true. And what will he do if he's premier next summer? Durrrrr…

They complain about electricity prices and they have things they call electricity plans but those plans have less juice than a watch battery: Brown promises to review generating contracts to look for loopholes, as if the Liberals hadn't thought of that. Andrea Horwath says an NDP government would buy back the Hydro One transmission utility, the sale of which has basically nothing to do with electricity prices. Each party's plan has other elements but at most they amount to fiddling in the decimal places.

So that's where we are: Ontario's electricity prices are high and in complaining about them with Trumpian vapidity, the opposition parties have stampeded the government into buying temporary relief by making them much higher than they'd have to be if we just gutted the next few years out. Well done everybody.

- **Length:** 1126 words

June 2, 2017

Financial Accountability Office Report on the Fair Hydro Plan

REASON FOR REPORT

The purpose of this submission is to provide the Special Committee a summary of the analysis of the Fair Hydro Plan (FHP) published by the Financial Accountability Office (FAO) of Ontario.

CONCLUSIONS

The FAO issued their assessment of the fiscal impact of the FHP on May 24th. The FAO produces independent analysis on the state of the Province's finances to the Legislative Assembly of Ontario. Upon request, the FAO will also undertake research to estimate the financial costs or financial benefits to the Province of any bill or proposal under the jurisdiction of the legislature.

The report estimates that, over the next 29 years the Fair Hydro Plan will:

- cost the Province $45 billion in lost revenue from the HST rebate and electricity relief programs shifted from ratepayer to taxpayer,
- save ratepayers $24 billion, and
- result in a net cost to Ontarians of $21 billion.

A key criticism of the FAO analysis is that it ignores the time value of money.

The report addresses a number of questions posed by critics including the incremental cost of borrowing by OPG over Provincial borrowing, and the risks associated with the accounting treatment to the Provincial annual surplus/deficit and net debt.

HIGHLIGHTS

Further examination of the FAO analysis and comparison to OPG's analysis is provided in Appendix 1 – FAO Analysis of the Fair Hydro Plan.

Submitted by:

"Original signed by:"

Carlo Crozzoli
Senior Vice President Corporate Business Development
and Strategy

APPENDICES

1. FAO Analysis of the Fair Hydro Plan

ONTARIO POWER GENERATION

Bernard Lord
Board Chair

700 University Ave, Toronto, ON M5G 1X6

Tel: 416-592-2115
bernard.lord@opg.com

May 19, 2017

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

Dear Minister Thibeault:

I am writing in response to your letters dated April 13 and May 11, 2017 in which you requested a plan ("**the Plan**") from OPG for the implementation of the Global Adjustment (GA) Refinancing component of the Province's Fair Hydro Plan.

On May 12, 2017, the OPG Board of Directors approved the business case for OPG's participation in the Fair Hydro Plan, based on the *Ontario Fair Hydro Plan Act* (the "**Proposed Legislation**") as tabled on May 11, 2017, and subject to the completion of certain conditions. These conditions are set out in the attached.

OPG has prepared an initial draft of a Plan, including the proposed structure and strategy for financing the GA deferrals under the Fair Hydro Plan. The following is a summary of the draft plan:

- A financing entity (which will most likely be a trust) will be created that is ring-fenced from OPG's primary businesses. The financing entity will purchase from the IESO, the deferral accounts/regulatory assets created by the consumer bill reductions under the Fair Hydro Plan. OPG will be the manager of the financing entity.

- The financing platform to fund the financing entity will be developed to access both the Canadian and US markets in order to optimize pricing and flexibility.

- The financing platform is expected to comprise a majority of senior debt financing raised in the capital markets (at least 51%) and subordinated debt from OPG (up to an aggregate of 49%) and/or the capital markets. The subordinated debt is proposed to be stratified into at least two tranches, the significant majority of which (44% of the total financing) will be funded by equity injections into OPG, which will on lend into the financing entity. A portion of the subordinated debt (5% of the total financing) is proposed to be funded by OPG itself through debt raised in the capital markets.

- In terms of borrowing and repayment of financing costs for the deferrals, is expected that:

    - during the first 10 years of the Fair Hydro Plan (2017- 2026), the debt created by the deferral of electricity charges will accumulate, together with associated interest costs & other fees, that in combination will establish the regulatory assets; and

- starting 2027, the accumulated debt created by the deferral will be recovered and paid down by 2047. Similar to mortgage style debt payment, a combination of principal and interest will be paid to lenders during this 20-year period.

The Plan will be finalized and submitted following clearance of the approval conditions, which include the passage of the Legislation and attendant regulations, consistent with OPG's requirements, as well as the settlement of principal agreements governing the financing of the financing entity.

With respect to the completion of the regulations, I understand that the detailed requirements together with draft language for certain provisions were delivered by Torys counsel to the Ministry of Energy's legal counsel on May 16, 2017. These requirements incorporate all the principal matters that OPG and its respective legal counsel, financial advisors and the dealers who will place the debt in the capital markets have identified as necessary to be covered in the regulations in order for the Global Adjustment deferrals to be financeable in the capital markets and for the desired accounting treatment to be obtained. These requirements will satisfy the Board's approval. OPG looks forward to working closely with the Ministry on the drafting of these regulations and exchanging early drafts in order to achieve our respective objectives.

I would like to confirm receipt of the shareholder resolution amending OPG's Articles of Amendment which closes another of the Board's conditions. We are in the process of filing them with the Province.

We expect to submit the final Plan as soon as practicable after the regulations have been made and the principal agreements have been settled.

Sincerely,

Bernard Lord
OPG Board Chair

cc: Jeff Lyash, President and CEO, OPG
Serge Imbrogno, Deputy Minister of Energy

Enclosure

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**RESOLUTION OF THE BOARD OF DIRECTORS
OF
ONTARIO POWER GENERATION INC.**

Re: Schedule A – Conditions of Special Committee Recommendation – OPG's Participation in Ontario's Fair Hydro Plan

The Board of Directors approved the following resolution on May 12, 2017 regarding OPG's Participation in Ontario's Fair Hydro Plan.

* * * * * * * * * * * * *

**SCHEDULE "A"
CONDITIONS OF SPECIAL COMMITTEE RECOMMENDATION**

1. The Province of Ontario enacts the legislation provisionally titled, "the Ontario Fair Hydro Plan Act, 2017" and its attendant Regulations that are consistent with OPG's requirements and objectives for participating in the Fair Hydro Plan, as outlined in the Management Business Case, including as detailed in Appendix 2 Part B "Regulations" and Appendix 2 Part C "Term Sheets For Material Contracts Required to Implement the Financing Entity";

2. OPG's Articles of Amalgamation are amended by the Province, as the Company's sole shareholder, to permit OPG to participate in the public debt markets without restrictions;

3. The Fair Allocation Amount (as defined in the Management Business Case) eligible for refinancing is confirmed by the Province in writing;

4. Evidence satisfactory to the Special Committee as to the enforceability of the Guarantee; and

5. OPG management takes guidance from, and provides regular updates to, the Special Committee in respect of the foregoing in the form, manner, regularity and duration requested by the Special Committee.

* * * * * * * * * * * * *

Certified to be a true and correct copy of the resolution of the Board of Directors of the Corporation passed by the Board of Directors at a meeting thereof duly convened and held on the 12th day of May 2017 which resolution is in full force and effect, unamended, on the date hereof.

Dated this 17th day of May, 2017

Catriona King

Catriona King
Vice President, Corporate Secretary

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FOR INFORMATION to the Special Committee of the Board

June 2, 2017

Timeline for Fair Hydro and OPG Corporate Debt Programs

REASON FOR REPORT

This submission is to provide the Special Committee with an update on the Fair Hydro Financing timeline and the preliminary timeline for the OPG Corporate Debt Program.

CONCLUSIONS

1) Financial advisors remain confident that the Fair Hydro Financing Program is financeable in the capital markets subject to finalization of legislation, regulation and provincial guarantee. There is additional pressure on the schedule given delays in the completion of Province's deliverables including the Legislation and Regulations which are expected to be passed into law by June 1st and late June respectively.

2) OPG has commenced work on the Corporate Debt Program. A prelminary timeline has been attached for reference. Most work activities can be reasonably estimated. One activity with some schedule uncertainty is the due diligence by Lenders counsel and corresponding data requirements. Ability to satisfy the requirements is dependent on the availability of documentation which could be challenging if OPG must provide evidence of ownership or other rights going back decades.

HIGHLIGHTS

Further details are provided in

Appendix 1 – Fair Hydro Financing Timeline, May 29, 2017

Appendix 2 – Preliminary OPG Corporate Debt Program Timeline, May 29, 2017

Submitted by:

"Original signed by:"

Ken Hartwick
Chief Financial Officer & Senior Vice President – Finance

APPENDICES

1. Fair Hydro Financing Timeline, May 29, 2017
2. Preliminary OPG Corporate Debt Program Timeline, May 29, 2017