

December 15, 2017

**VIA RESS AND COURIER**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, Suite 2700  
Toronto, ON M4P 1E4

Dear Ms. Walli,

**RE: EB-2017-0375 – Ontario Power Generation Inc. – Fair Hydro Plan  
General Fee Application**

Attached please find an Application by Ontario Power Generation Inc. (“OPG”), acting as the Financial Services Manager (“FSM”) of the Fair Hydro Plan (“FHP”), for an order approving the general fee for the period beginning on January 1, 2018 and ending on March 31, 2019.

The Application is guided by the Ontario Fair Hydro Plan Act, 2017 (“the Act”) and Section 10 of Ontario Regulation 206/17 (“the Regulation”). Pursuant to the Act, the FSM is required to establish a general fee related to performing its duties. Pursuant to the Regulation, the FSM is required to submit the proposed fee for the period beginning January 1, 2018 and ending on March 31, 2019, for review by the Ontario Energy Board (“OEB”), by December 15, 2017.

Given the formulaic nature of determining the general fee, as well as the immaterial financial impact of the Application to customers, OPG requests the OEB proceed without a hearing.

If you have any questions on this matter, please do not hesitate to contact me at (416)-592-5984.

Yours truly,

**[Original signed by]**

Lubna Ladak

cc. Leslie Wong, OPG  
Randy Pugh, OPG  
John Lee, OPG



- 1 3. Pursuant to subsection 78.1(3) of the *Ontario Energy Board Act, 1998* (the “OEB Act”),  
2 the activities of OPG which are carried out in relation to the Act, including costs it incurs  
3 and fees it receives in connection with the performance of its duties as FSM,<sup>2</sup> are  
4 separate from and shall not be considered by the OEB when the OEB sets payment  
5 amounts for OPG in respect of its prescribed generation facilities.<sup>3</sup>  
6
- 7 4. The FHP Regulation contemplates the FSM filing applications with the OEB for  
8 approval of fees in respect of several different time periods, the first of which is the  
9 requirement under section 10.5 of the FHP Regulation to submit, by December 15,  
10 2017, the proposed general fee for the period beginning January 1, 2018 and ending  
11 on March 31, 2019. The portion of the general fee resulting from the formula set out in  
12 paragraph 1 of subsection 10.5(2) of the FHP Regulation provides for an amount that  
13 may be incremental to the portion of the general fee calculated under paragraph 5 of  
14 subsection 10.5(2), which is to be determined monthly by calculating 0.00625 per cent  
15 of the average monthly funding obligation (as that term is defined in the FHP  
16 Regulation) for each month during the Application Term.  
17
- 18 5. Subsequent applications for approval of fees are required by February 28, 2018 for the  
19 period beginning on June 1, 2017 and ending on December 31, 2017,<sup>4</sup> and on or before  
20 February 28, 2019 and by the same date in each subsequent year for the periods  
21 beginning on April 1 and ending on March 31 of the corresponding years.<sup>5</sup> Distinct  
22 methodologies will apply, in accordance with the FHP Regulation, for determining fees  
23 in respect of those applications relating to the corresponding periods.  
24
- 25 6. The FSM is required to establish the proposed general fee for the Application Term in  
26 accordance with the formula and approach prescribed under subsection 10.5(2) of the  
27 FHP Regulation. Applying the prescribed formula set out in paragraph 1 of subsection

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<sup>2</sup> OEB Act, s. 78.1 (3.1), part 2.

<sup>3</sup> OEB Act, s. 78.1 (3).

<sup>4</sup> O.Reg 206/17, s. 10.2.

<sup>5</sup> O.Reg 206/17, s. 10.8.

1 10.5(2) requires certain inputs that are not currently known or available. The unknown  
2 or unavailable inputs are the principal amounts of the funding tranches and the actual  
3 interest rates for those funding tranches. The actual funding tranche amounts and  
4 corresponding interest rates will be known in due course as a result of dealings with  
5 third party lenders, and once these items are available, will be factored by OPG, in its  
6 capacity as FSM, into the calculation of the fee using the formula.

7  
8 7. In accordance with subsection 10.6(1) of the FHP Regulation, upon reviewing the  
9 Application the OEB may either (i) approve the proposed general fee, or (ii) refuse to  
10 approve the proposed general fee if it is of the view that the forecast interest rate to be  
11 used in setting the proposed general fee is materially inconsistent with market  
12 comparable forecast interest rates. Therefore, although the actual tranche amounts  
13 and the corresponding interest rates are not currently known or available, for purposes  
14 of the OEB's consideration in this Application, the focus of the OEB's review is on the  
15 forecast interest rate that is to be applied in the prescribed formula and not on the  
16 principal amounts of the funding tranches or the actual interest rates for the funding  
17 tranches. On determining the appropriateness of the forecast interest rate, all inputs to  
18 the applicable formula and corresponding steps for calculation of the proposed general  
19 fee under section 10.5 of the FHP Regulation will be capable of calculation by OPG in  
20 its capacity as FSM.

21  
22 8. The written evidence that will be filed in support of the Application will include interest  
23 rate forecasts derived from three factors: (i) a forecast of long-Canada bond rates; (ii)  
24 a forecast risk premium for Ontario long-term interest rates; and (iii) a risk premium for  
25 the FH Trust. Given the unique nature of this structuring, OPG will update this  
26 Application with a forecast of the FH Trust risk premium once the credit rating agencies  
27 have issued a credit rating for the FH Trust and debt has been issued (expected  
28 February 2018). Providing a public forecast of the FH Trust credit risk premium in  
29 advance of executing a transaction could negatively impact OPG's ability to minimize

1 the spread premium. The update to the written evidence will also include an  
2 assessment of market comparable forecast interest rates.

3  
4 9. The written evidence filed with the Application provides an explanation as to how the  
5 prescribed formula operates for purposes of establishing the general fee under section  
6 10.5 of the FHP Regulation. Examples are provided to add clarity to the operation of  
7 the formula for establishing payment amounts, provide insight into the magnitude of  
8 the fee determined in subsection 10.5 (2) paragraph 6, and the maximum incremental  
9 fee determined in subsection 10.5(2) paragraphs 1 to 4. As discussed under  
10 paragraph 8 of this Application, OPG will file additional supporting written evidence.

11  
12 10. OPG requests that the OEB review this Application without a hearing. Under  
13 subsection 34(2) of the Act, the Board may, despite anything to the contrary in the  
14 *Ontario Energy Board Act, 1998*, exercise any of its responsibilities under the Act,  
15 without a hearing. This includes approving fees pursuant to the OEB's authority under  
16 subsection 19(4) of the Act and sections 10.5 and 10.6 of the FHP Regulation. OPG  
17 believes it is appropriate for the OEB to determine the Application without a hearing,  
18 for the following reasons:

19  
20 a) Determination of the fee under section 10.5 of the FHP Regulation is based on a highly  
21 prescriptive formula;

22  
23 b) The scope of the OEB's discretion in considering the Application is narrow - it involves  
24 comparing the forecast rates to market comparable forecast rates and ensuring they  
25 are not materially inconsistent. This is a matter in respect of which the OEB has  
26 extensive relevant experience and expertise; therefore, the participation of external  
27 stakeholders in a hearing process would be of limited benefit for this Application;

28  
29 c) The maximum forecast financial impact associated with the incremental fee which is  
30 the sole portion of the general fee that relies upon the forecast interest rate, subject to

1 the OEB's review, is +/- \$2.25M as described in Appendix A of the written evidence  
2 accompanying the Application. As the financial impact is not material, it does not merit  
3 the expense and process of a public hearing.

4  
5 11. In the alternative, if the OEB determines that a hearing is required, OPG requests that  
6 the Application proceed by way of a written hearing.

7  
8 12. The Application is supported by written evidence. That evidence will be updated as  
9 described above, and may be supplemented or amended from time to time by OPG  
10 prior to the OEB's final decision on the Application.

11  
12 13. OPG further applies to the OEB pursuant to the provisions of the Act and the OEB's  
13 Rules of Practice and Procedure for such orders and directions as may be necessary  
14 in relation to the Application and the proper conduct of this proceeding.

15  
16 14. The persons affected by this Application are specified consumers as defined in the Act.  
17 It is impractical to set out the names and addresses of the specified consumers  
18 because they are too numerous.

19  
20 15. OPG requests that copies of all materials filed with the Board in connection with this  
21 Application be served on the Applicant and the Applicant's counsel as follows:

22  
23 (a) The Applicant: Ms. Lubna Ladak  
24 Ontario Power Generation Inc.

25  
26 Mailing address: H18 A17  
27 700 University Avenue  
28 Toronto, ON. M5G 1X6

29  
30 Telephone: 416-592-5984

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Facsimile: 416-592-4189

Electronic mail: Lubna.Ladak@OPG.com

(b) The applicant's Counsel: Mr. Leslie Wong  
Ontario Power Generation

Mailing Address: H18 G26.1  
700 University Avenue  
Toronto ON. M5G 1X6

Telephone: 416-592-3110

Facsimile: 416-592-1466

Electronic mail: Leslie.Wong@opg.com

Dated at Toronto, Ontario, this 15th day of December, 2017.

Ontario Power Generation Inc.

[Original signed by]

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Lubna Ladak, VP Treasury, Fair Hydro Plan

1 **ONTARIO ENERGY BOARD**

2  
3 **IN THE MATTER OF** the *Ontario Fair Hydro Plan Act,*  
4 2017 (the “Act”) and Ontario Regulation 206/17 (the  
5 “FHP Regulation”);  
6

7 **AND IN THE MATTER OF** an Application by Ontario  
8 Power Generation Inc., acting as the Financial Services  
9 Manager under the Act, for an order or orders approving  
10 fees pursuant to subsection 19(4) of the Act and section  
11 10.5 of the FHP Regulation, for the period beginning on  
12 January 1, 2018 and ending on March 31, 2019.  
13

14 **GENERAL FEE SUPPORTING EVIDENCE**  
15 **FOR JANUARY 1, 2018 TO MARCH 31, 2019**  
16

17 **1.0 Background**

18 In June 2017, the Government of Ontario (the “Province”) enacted the Act, to establish  
19 a framework under which the costs and benefits associated with the Province’s Clean  
20 Energy Initiatives are to be fairly allocated between present and future consumers of  
21 electricity under Ontario’s Fair Hydro Plan (“FHP”). The objective of the Act is to  
22 reduce average electricity bills for specified consumers by 25 per cent commencing on  
23 July 1, 2017. The total bill reduction of 25 per cent is comprised of an 8 per cent  
24 reduction of the Provincial portion of the harmonized sales tax, with the remaining 17  
25 per cent achieved by decreasing energy rates for specified consumers paying the  
26 Regulated Price Plan rate and providing a global adjustment reduction credit for other  
27 specified consumers. The reduction in electricity bills will result in a shortfall in the  
28 Independent Electricity System Operator’s (“IESO”) collections, which will need to be  
29 financed in order to pay the underlying global adjustment costs. The objective of the  
30 FHP program is to refinance a portion of the deferred global adjustment costs over a  
31 longer period of time.  
32



1 Under the Act, OPG is appointed as the Financial Services Manager (“FSM”) and is  
2 given the authority to, among other things, establish and manage one or more financing  
3 entities to raise debt financing (referred to as “Funding Obligations”) for purposes of  
4 the Act. The Act requires the Minister of Energy (“MOE”) to calculate the Fair Allocation  
5 Amount<sup>1</sup> and for the FSM to incur Funding Obligations that, subject to refinancing,  
6 reasonably align with the Fair Allocation Amount, as adjusted by any readjustment  
7 amount.

8  
9 The Fair Hydro Plan Trust (the “FH Trust”) is a financing entity that is being established  
10 by OPG in its role as FSM. For purposes of subsection 19 (3) of the Act, the fees  
11 established and charged by the FSM may be charged to financing entities. Certain  
12 elements of these fees are subject to review by the OEB.

13  
14 The FHP Regulation was enacted in support of the Act. Section 10 of the FHP  
15 Regulation addresses the setting, review, and charging of fees to financial entities for  
16 three specific time periods: (i) 2017, (ii) January 1, 2018 to March 31, 2019, and (iii)  
17 subsequent years. The FHP Regulation provisions differ for each of these three  
18 periods.

19  
20 The FSM is required to perform the duties assigned to it under the Act and as may be  
21 prescribed under the applicable regulation. These include, but are not limited to, the  
22 FSM’s responsibility for providing services to the FH Trust related to acquiring,  
23 administering, and selling investments, as well as issuing debt to finance these  
24 transactions. In addition, the FSM is responsible for preparing financing plans,  
25 forecasting cash flow requirements of the FH Trust, acting as custodian of investment  
26 records, and entering and executing various program agreements associated with  
27 these activities. The FSM also has a monitoring role related to the collection of clean

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<sup>1</sup> The Act, s. 20.

1 energy adjustments by Local Distribution Utilities from customers, as required by  
2 lending agreements.

3

## 4 **2.0 PURPOSE**

5 OPG is applying, in its capacity as the FSM, to the OEB for approval of the general fee  
6 to be charged to the FH Trust for the period beginning on January 1, 2018 and ending  
7 on March 31, 2019 (the "Application Term") as required by section 10.5(1) of the FHP  
8 Regulation.

9

## 10 **3.0 REQUIREMENTS FOR SETTING THE GENERAL FEE**

11 Sections 10.5 and 10.6 of the FHP Regulation contain the provisions supporting the  
12 determination of the general fee and provide for the OEB's review of the general fee  
13 proposal. The general fee is established as the sum of the amount determined  
14 pursuant to subsection 10.5(5) (the "Base Fee") and the amount determined under  
15 subsection 10.5(2), after applying the constraints listed in paragraphs 3 and 4 (the  
16 "Incentive Fee"). These two portions of the general fee are described below.

17

### 18 **The Base Fee:**

19 The Base Fee requires a fixed rate of 0.00625 per cent to be applied to the average  
20 monthly funding obligation for each month in the Application Term. The average  
21 monthly funding obligation is defined in Section 1(3) of the FHP Regulation as follows:

22 For the purposes of determining the average monthly funding  
23 obligation for a month, the following formula applies:

24

$$(A + B) \div 2$$

25

where,

26

A = the sum of the balances on the first day of the month of the  
27 principal amount of all outstanding funding obligations incurred by  
28 financing entities, and

29

1 B = the sum of the balances on the last day of the month of the  
2 principal amount of all outstanding funding obligations incurred by  
3 financing entities.

4 The FSM is required to develop a financing plan which identifies the timing and amount  
5 of expected funding obligations that will be undertaken by the FH Trust for the period  
6 December 1, 2017 to November 30, 2019. The determination of the Base Fee is  
7 prescribed by formula, the inputs into which are prescribed. The actual Base Fee will  
8 differ from forecast should the amount of the funding obligation and/or the timing of  
9 issuance within each quarter vary from the financing plan.

10  
11 **The Incentive Fee:**

12 The Incentive Fee is determined pursuant to the formula prescribed in section 10.5(1)  
13 of the FHP Regulation:

$$(A * (B - C)) * 0.10$$

14  
15 where:

16  
17 A = the principal amount of the funding tranche,  
18 B = the forecast interest rate for the funding tranche, and  
19 C = the actual interest rate for the tranche  
20

21 Section 1(1) of the FHP Regulation defines a “funding tranche” as an issuance of  
22 funding obligations of a particular class or type, all of which have the same terms, but  
23 does not include an issuance of a funding obligation to the FSM. For the Application  
24 Term, the financing plan includes defined funding tranches of \$2,248M to fund  
25 expected funding obligations that will be undertaken by the FH Trust during the  
26 Application Term as follows: Q1 2018 (\$612M), Q2 2018 (\$331M), Q3 2018 (\$404M),  
27 Q4 2018 (\$577M), and Q1 2019 (\$326M).

28  
29 As with the Base Fee, the actual Incentive Fee is dependant on the actual amount and  
30 timing of the borrowing. Interest rate information, both actual and forecast, is also  
31 required to determine the Incentive Fee. To the extent the actual interest rate is less  
32 than forecast, the Incentive Fee will be positive, and if the interest rate is higher than

1 forecast, the Incentive Fee will be negative. The OEB is required to assess whether  
2 the forecast interest rates reflected in the Application are not materially inconsistent  
3 with market comparable forecast interest rates. The magnitude of the Incentive Fee is  
4 limited under section 10.5(2) of the FHP Regulation: paragraphs 3 limits the incentive  
5 to the FSM if actual interest rates are substantially less than forecast; while paragraph  
6 4 limits the negative incentive to the FSM if actual interest rates are substantially  
7 greater than forecast. As shown in Appendix A, the incentive range based on the  
8 quarterly funding tranches described above is +/- \$2.25M.

9  
10 Appendix B, Tables 1 and 2, provide clarity to the operation of the formula for  
11 establishing the Incentive Fee. These tables are based on assumptions intended to  
12 provide the OEB with an understanding of the materiality of the financial impact on  
13 customers of the interest rate forecast assessment required pursuant to section 10.6(1)  
14 of the FHP Regulation. For example, the funding tranches reflect the FSM's financial  
15 plan (i.e., expected amount and timing of financial tranches to be issued) for the  
16 Application Term, a low forecast interest rate reflecting recent history of 10-year term  
17 for Ontario Bonds using information from Bloomberg (i.e., reflecting no risk premium  
18 for the FH Trust), and a high interest rate forecast reflecting a 100 basis point risk  
19 premium for the FH Trust over the low interest rate forecast (i.e., the ultimate FH Trust  
20 risk premium is expected to be between 0 and 100 basis points). An understanding of  
21 the materiality of the financial impact is intended to assist the OEB in determining its  
22 review process for the Application.

23  
24 OPG will file additional written evidence in support of the Application that will include  
25 an interest rate forecast derived based on three factors: (i) forecast of Government of  
26 Canada bond rates; (ii) forecast risk premium for Ontario Government bond issuance;  
27 and (iii) a risk premium for the FH Trust bond issuance. Given the unique nature of  
28 this structuring, OPG will update this Application with a forecast of the FH Trust risk  
29 premium once the credit rating agencies have issued a credit rating for the FH Trust  
30 and debt has been issued (expected February 2018). Providing a public forecast of the

- 1 FH Trust credit risk premium in advance of executing a transaction could negatively
- 2 impact OPG's ability to minimize the spread premium. The update to the written
- 3 evidence will also include an assessment of market comparable forecast interest rates.

Numbers may not add due to rounding.

Filed: 2017-12-15

EB-2017-0375

Appendix A

Table 1

Table 1  
Calculation of Incentive Range

Line No.	Description	(\$M)
1	<b>Principal amount of funding tranche<sup>1</sup></b>	2,248
2	<b>Calculation of upper limit<sup>2</sup></b> (2% * 5% * line 1)	2.25
3	<b>Calculation of lower limit<sup>3</sup></b> (-2% * 5% * line 1)	-2.25

Notes:

- 1 Per General Fee Supporting Evidence, Page 5
- 2 Per O. Reg. 206/17, 10.5(2) paragraph 3
- 3 Per O. Reg. 206/17, 10.5(2) paragraph 4

Table 1  
Illustrative Example Demonstrating Materiality

Line No.	Description	Q1 - 2018	Q2 - 2018	Q3 - 2018	Q4 - 2018	Q1 - 2019	Sum
		(a)	(b)	(c)	(d)	(e)	(f)
1	Principal amount of funding tranche <sup>1</sup>	612	331	404	577	326	2,248
2	Forecast interest rate for the funding tranche <sup>2</sup>	5%	5%	5%	5%	5%	
3	Actual interest rate for the funding tranche <sup>2</sup>	3%	3%	3%	3%	3%	
4	Result pursuant to 10.5(2) Para. 1: $A*(B-C)*0.1$ line 1 * (line 2 - line 3) * 0.1	1.22	0.66	0.81	1.15	0.65	4.50
5	Result pursuant to 10.5(2) Para. 2 Sum of line 4, col. (a) to col. (e)						4.50
6	Application of 10.5 (2) Para. 3 Line 4 col. (f) is greater than 2.25. Therefore reduced to 2.25						2.25
7	Application of 10.5 (2) Para. 4 Line 4 col. (f) is not less than -2.25. Therefore para. 4 does not apply						N/A
8	Final Results after applying 10.5 (2) Paras. 1-4						2.25

Notes:

- 1 Per General Fee Supporting Evidence, Page 5
- 2 Rate chosen for illustrative purposes only

Table 2  
Illustrative Example Demonstrating Materiality

Line No.	Description	Q1 - 2018	Q2 - 2018	Q3 - 2018	Q4 - 2018	Q1 - 2019	Sum
1	Principal amount of funding tranche <sup>1</sup>	612	331	404	577	326	2,248
2	Forecast interest rate for the funding tranche <sup>2</sup>	4%	4%	4%	4%	4%	
3	Actual interest rate for the funding tranche <sup>2</sup>	8%	8%	8%	8%	8%	
4	Result pursuant to 10.5(2) Para. 1: $A*(B-C)*0.1$ line 1 * (line 2 - line 3) * 0.1	-2.45	-1.32	-1.61	-2.31	-1.30	-8.99
5	Result pursuant to 10.5(2) Para. 2 Sum of line 4, col. (a) to col. (e)						-8.99
6	Application of 10.5 (2) Para. 3 Line 4 col. (f) is not greater than 2.25. Therefore para. 3 does not apply.						N/A
7	Application of 10.5 (2) Para. 4 Line 4 col. (f) is less than -2.25. Therefore reduced to -2.25						-2.25
8	Final Results after applying 10.5 (2) Paras. 1-4						-2.25

Notes:

- 1 Per General Fee Supporting Evidence, Page 5
- 2 Rate chosen for illustrative purposes only