COST OF SHORT-TERM DEBT

1.0 PURPOSE

This evidence details OPG's annual short-term borrowing and associated costs for the bridge year and IR term. It also provides actual short-term debt costs for 2016 to 2019.

2.0 DESCRIPTION OF SHORT-TERM DEBT

OPG's cost of short-term debt for the IR term was determined using the methodology approved by the OEB in prior OPG payment amounts proceedings. The short-term debt component of OPG's capital structure reflects its forecast amount of short-term borrowings, and the cost of short-term debt reflects its forecast short-term borrowing cost.

OPG's short-term debt is comprised of a commercial paper program backstopped by bank credit facilities. In November 2019, OPG established a second bank facility of USD$750M. The US bank credit facility diversifies OPG's source of short-term funding beyond the existing $1B Canadian bank credit facility.

OPG's commercial paper program is used to fund intra-month working capital requirements. OPG forecasts that a daily average borrowing of $100M is required to finance OPG's normalized intra-month working capital requirements in the IR term.

In addition, bank credit facilities are used as a backstop to the commercial paper programs. The bank credit facilities also provides liquidity support in the event that OPG is unable to issue commercial paper. These commercial paper programs and backstops are important elements that credit rating agencies consider when assessing OPG's liquidity and review OPG's credit ratings.

OPG terminated its accounts receivable securitization program in November 2020.

3.0 SHORT-TERM DEBT COST

OPG's borrowing rate under OPG's commercial paper programs is market-based, comprised of a 5-10 basis point dealer fee and a corporate spread over a benchmark rate. The corporate spread forecast over the IR term is based on the current corporate spread of 5 basis points over the Canadian bankers' acceptances rate.

Consistent with the approach used in prior applications, OPG has used the Global Insight forecast as the basis for the bankers' acceptances interest rate forecast after adjusting for the spread differential between bankers' acceptances and the yield on treasury securities. The bankers' acceptances rate used is 0.34% for 2021, 0.37% for 2022 and 0.68% for 2023, 1.06% for 2024, 1.56% for 2025 and 2.13% for 2026.

The bank credit facility fees are forecast to cost $3.6M in 2020, $5.3M in 2021 and $5.2M in each year between 2022 and 2026. The increase in fees from 2020 and 2021 is primarily due to the addition of the US bank credit facility and higher forecast standby fees reflecting current market rates. As in prior applications, these costs are included with OPG's short-term debt costs, as the credit facilities are required to support OPG's commercial paper program.

Exhibit C1-1-3, Table 2 summarizes OPG's forecast company-wide cost of short-term debt.

4.0 ALLOCATION TO REGULATED OPERATIONS

For the IR term, OPG has used the same allocation methodology approved by the OEB in prior OPG payment amount proceedings. In summary, the ratio of the construction work in progress and non-cash working capital amounts (fuel inventory and materials/supplies) for OPG's regulated operations to the total construction work in progress and non-cash working capital amounts reported in OPG's audited consolidated financial statements is used as the basis for allocating company-wide short-term borrowing. This allocation ratio reflects OPG's use of short-term borrowing to finance its working capital requirements and to assist with managing the cash flow variability of capital projects.

For all company-wide short-term borrowing up to December 31, 2019, the allocation ratio is determined based on actual year-end values in the corresponding years. Consistent with the approach approved in prior applications, OPG continues to use the most recent available audited information to determine the allocation factor for the company's short-term debt for 2021 to 2026. The calculation of the allocation ratio for 2016 to 2019 is provided in Ex. C1-1-3, Table 1.