COST OF SHORT-TERM DEBT

1.0 PURPOSE
This evidence details OPG’s annual short-term borrowing and associated costs for the test period. It also provides actual short-term debt costs for 2010 - 2012 and budgeted costs for 2013.

2.0 DESCRIPTION OF SHORT-TERM DEBT
OPG’s cost of short-term debt for the test period was determined using the methodology approved by the OEB in EB-2007-0905 and in EB-2010-0008. 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 and an accounts receivable securitization program.

OPG’s commercial paper program is used to fund intra-month working capital requirements. OPG expects to continue to use this source of financing in the test period. OPG forecasts that a daily average borrowing of $20M is required to finance OPG’s normalized intra-month working capital requirements in the test period.

In addition, a bank credit facility continues to be used as the backstop to the commercial paper program. The bank credit facility also provides liquidity support in the event that OPG is unable to issue commercial paper as OPG would be able to borrow by way of bankers’ acceptances under the bank credit facility. Access to adequate liquidity is an important element that credit rating agencies consider when reviewing credit ratings. The bank facility is $1B in size, comprised of two $500M multi-year tranches. In May 2013, OPG extended both tranches to May 2018.

OPG’s other primary source of short-term financing is its accounts receivable securitization program with the Royal Bank of Canada. This facility is $250M in size. OPG has not used
this facility to date in 2013 but projects borrowing $195M via this facility in Q4. Therefore the
projected average borrowing for 2013 is $49M. OPG forecasts continued borrowing of
$195M under this program throughout the 2014 - 2015 test period.

Under the accounts receivable securitization program, OPG borrows a portion of the month-
end accounts receivable balance owing to OPG from the IESO for the prior month. OPG’s
month-end accounts receivable balances have ranged from $289M to $498M during the
period January 2010 to December 2012. The accounts receivable securitization balance of
$195M rolls over on a monthly basis and is supported by the amount of the IESO monthly
payment. By selling its receivables, OPG is in essence borrowing money in advance of the
monthly receipt from the IESO and the interest is the cost of that borrowed money. Under
this program OPG continues to service the receivables and pays a short-term cost of funds
on a monthly basis to an independent trust.

3.0 SHORT-TERM DEBT COST

OPG’s borrowing rate under the commercial paper program is market-based, comprised of a
10 basis point dealer fee and a corporate spread over the bankers’ acceptances rate for
OPG. The corporate spread forecast over the test period is based on the current corporate
spread of 5 basis points.

Consistent with the approach used in EB-2010-0008, 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.
For 2013, the bankers’ acceptances rate used is 1.13 per cent, for 2014 it is 1.22 per cent,
and for 2015 it is 2.23 per cent.

The bank credit facility is forecast to cost $3.6M in each of 2013, 2014 and 2015, which is
equal to the actual cost in 2012. As in EB-2007-0905 and EB-2010-0008, these costs are
included with OPG’s short term debt costs, as the bank credit facility is required to support
OPG’s commercial paper program. A renewal fee of $0.2M for the accounts receivable
securitization program is also included in the facility cost.
The cost of the accounts receivable securitization program, consisting of the banker’s acceptance rate for the securitization program plus a program fee of 0.6 per cent, is forecast to be $0.9M in 2013, $3.7M in 2014 and $5.7M in 2015. Although the accounts receivable securitization program is slightly more expensive than OPG’s commercial paper program, it represents an alternative form of financing, and is a more permanent component of OPG’s short-term debt.

OPG’s forecast program spread over the bankers’ acceptances rate over the test period is based on the current program spread of 10 basis points.

From a liquidity perspective, the availability of different sources of financing provides flexibility in managing short term funding by allowing the borrower to manage the use of their overall facilities. The securitization program allows OPG to diversify its sources of liquidity at a reasonable cost.

Ex. C1-1-3 Table 2 summarizes OPG’s forecast company-wide cost of short-term debt.

### 4.0 ALLOCATION TO REGULATED OPERATIONS

For the test period, OPG has used the same allocation methodology approved by the OEB in EB-2007-0905 and EB-2010-0008. 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 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 prior to December 31, 2012, the allocation ratio is determined based on actual year-end values in that year. Consistent with the approach approved in EB-2007-0905 and EB-2010-0008, OPG is using the most recent actual audited
information available at the time evidence was developed to determine the allocation factor for OPG's short-term debt for 2013 - 2015. OPG has used asset and liability balances from its last audited financial statements as this approach is consistent with the asset values that are readily available, the amounts are independently verified, the approach is simple and transparent.

The allocation ratio determined in Ex C1-1-2 Table 1 has been calculated for 2010 - 2012 both with (line 19) and without (line 17) the newly regulated hydroelectric facilities. As the capitalization and cost of capital approved by the OEB in EB-2012-0002 did not include newly regulated hydroelectric facilities; the allocation ratio applied during 2010 - 2013 similarly does not include newly regulated hydroelectric facilities. As the capitalization and cost of capital for the 2014 - 2015 test period includes newly regulated hydroelectric facilities, the allocation ratio includes the impact of newly regulated hydroelectric facilities as reflected in Ex C-1-1-3 Table 2, line 12. The allocation ratio has increased from the 64.7 per cent for 2009 (EB-2010-0008 Ex C1-1-3 Table 1, line 9) as a result of the inclusion of newly regulated hydroelectric facilities in 2014 and 2015, the changing relative proportion of construction work in progress as the Niagara Tunnel project progressed, and the declining coal inventory reflected in company-wide fuel inventory amounts ($837M in EB-2010-0008 Ex C1-1-3 Table 1 reduced to $505M in Ex. C1-1-3 Table 1).