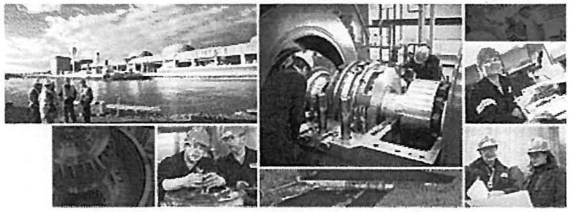
(22)

Ontario Power Generation

Update on Fair Hydro Plan Financing Program

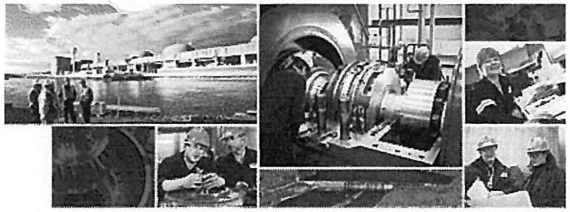
November 29, 2017

ONTARIO POWER GENERATION



Context

- Provide an update for Ministers on Ontario Power Generation (OPG) financing activities
- Update on discussions with rating agencies
- Outline of next steps



Rating Agencies' Status

OPG has engaged the following rating agencies (i.e., DBRS and Moody's) to provide credit ratings on the Fair Hydro Trust's (FHT) senior debt (i.e., Tranche A) and subordinated debt (i.e., Tranche B and Tranche C)

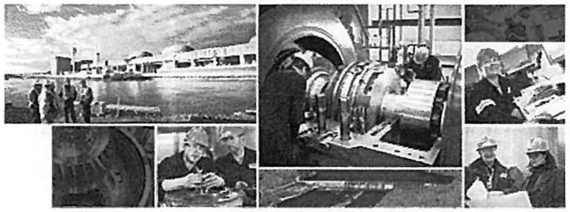
Completed To-Date:

- OPG has provided drafts of all requisite program agreements for rating agencies' review
- Several meetings have occurred between management, financial advisors and rating agencies to review key elements of the program
- Initial comments received from rating agencies have been addressed
- The Independent Electricity System Operator (IESO) servicing review was conducted with rating agencies, dealers, and OPG

Outstanding:

- DBRS and Moody's to complete review of final documentation and provide preliminary credit ratings for all debt tranches by **week of December 11th**

ONTARIOPOWER GENERATION



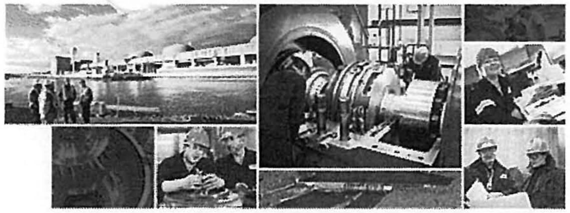
Short-Term Warehouse

OPG is securing an $800 million warehouse facility agreement with a bank syndicate comprising of CIBC, RBC and Goldman Sachs under a 2-year committed term

Proposed December 2017 Transaction

- Regulatory asset available to be purchased from IESO is expected to be approximately $1.2 billion, representing accumulated deferrals up to the end of November 2017
- OPG advises that better market access for term debt is expected in January 2018. The FHT will fund the December transaction using the following sources:
    - Short-term warehousing facility for 51% or ~$610 million;
    - Province's equity injection for 44% or ~$530 million; and
    - OPG's contribution for 5% or ~$60 million

ONTARIO POWER GENERATION

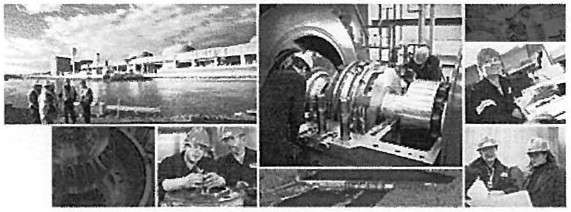


Indicative Marketing Timeline

The following outlines the proposed timeline for funding the initial regulatory asset purchase from IESO:

Activity	Indicative Timeline
Term Debt Rating Agencies' Preliminary Assessment	Week of December 11, 2017
Warehouse Facility Closing & Funding	December 18, 2017
Term Debt Rating Agencies' Confirmation of Ratings	Week of January 8, 2018
Marketing & Roadshow (Toronto, Montreal & Vancouver)	Week of January 15, 2018
Term Debt Pricing	Week of January 22, 2018
Term Debt Closing	T+5 of Pricing Date

ONTARIO POWER GENERATION



Next Steps

- Finalize Change of Law Protection Agreement by week of December 4, 2017
- Complete rating agencies' process by week of December 11, 2017
- Fund equity contribution and close short-term warehouse on December 18, 2017 for purchase of regulatory asset from IESO
- Market and close long-term debt in January 2018

Ontario's Fair Hydro Plan

Limited Guarantee from the Province – Overview

Joint Ministers Briefing
November 29, 2017

Purpose

- Provide Ministers with an update of the work being done to prepare two provincial agreements to support the implementation of Ontario's Fair Hydro Plan.

- Provide an overview of the two provincial agreements, including key details of the agreements.

- Outline next steps.

Context

- On March 2, 2017, the government announced its proposed Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017.

- Ontario Power Generation (OPG) has indicated that it requires some level of guarantee from province to be able to secure the financing for the OFHP.

- On September 25, 2017, TB/MBC approved a "term sheet" that set out the broad parameters of this guarantee.

- Ministries have been working with OPG, external lawyers and underwriters to finalize the provincial agreements.

- The provincial agreements must be signed by OPG and the Ministers of Energy and Finance well in advance of December 31st, to allow the Financing Entity to purchase the regulatory asset from the IESO before its year-end.

Overview of Provincial Approvals Already Completed

- Authorization under Section 5(3) of OFHPA
  - Section 5(3) provides that LGIC may by order authorize the Minister of Energy and Minister of Finance, acting together on behalf of the Province, to agree to guarantee or indemnify obligations associated with an Investment Interest

- Order in Council 1981/2017 made pursuant to subsection 5(3) of the OFHPA
  - The OIC, approved by Cabinet on September 27, 2017, authorized the Minister of Energy and the Minister of Finance, acting together on behalf of Ontario, to enter into one or more agreements to guarantee or indemnify the debts, obligations, securities or undertakings of a financing entity established under the OFHPA associated with investment interests acquired by a financing entity.

Overview of Proposed Agreements

- There are two agreements which set out the terms of the limited guarantee:
  1. Change of Law Protection Agreement **("Protection Agreement")**
  2. Change of Law Process Agreement ("**Process Agreement**")

- The **Protection Agreement** describes the circumstances that would trigger the guarantee:
  - A change of law (i.e., repeal or amendment of the *Ontario Fair Hydro Plan Act, 2017*); court decision; or a change in the electricity market structure or operations that adversely affects the ability of the Financing Entity to recover amounts related to funding obligations.

- Should the guarantee be triggered, the Province would be required to pay the financial obligations of the Financing Entity, which would have an immediate impact on the Province's fiscal plan and debt.

- The Protection Agreement also describes "adherence conditions" which must be fulfilled before the guarantee covers debt obligations:
  - For example, OPG must certify that it has complied with internal process requirements with Province (i.e. in Process Agreement)

Overview of Proposed Agreements Cont'd

- The **Process Agreement** sets out the information and necessary documentation that has to be provided by OPG to the Province in connection with the application of the limited guarantee .

- A breach of the Process Agreement allows the Province to suspend the limited guarantee for any new obligations, other than for refinancings. Suspension does not affect obligations already covered by limited guarantee.

Accounting Implications

- Reporting structure of the Financing Entity, as determined by OPG, will be a subsidiary of OPG, reporting as a government business enterprise in the Public Accounts on a modified equity, one-line basis (no change from current presentation)

- Reporting under IFRS 10, the ability for OPG to consolidate the Financing Entity is determined by way of its power to direct and access returns from the subsidiary (as set out in the agreements)

- Province can set the terms and conditions without exercising direct control

Risks

- Accounting
  - Any actions taken by the Province to direct the activities of the Financing Entity may result in the Financing Entity being controlled directly by the Province and not consolidated under OPG
  - No assessment has been undertaken as to whether the Financing Entity would be considered a government business enterprise

- Province dependent on OPG for key matters relating to the limited guarantee
  - Less power/information than would typically be afforded to a guarantor
  - Significant reliance on OPG to deliver timely, accurate information
  - Province has no say on financing decisions if permitted by the Financing Plan

- Even without a change of law by the Legislature, a court determination may trigger a Protection Event

- Possible criticism for wholesale delegation to OPG; although accounting considerations and the Act itself lead to this outcome

- Potential for opportunistic litigation by Financing Entity creditors to trigger a Protection Event

Next Steps

- Ministries are working to finalize the two agreements, incorporating recent input from the credit rating agencies and continued input from the underwriters.

- Final agreements will come forward for signature by the Ministers of Energy and Finance in the coming weeks. The Minister of Finance will be asked to provide s.28 approval at the same time as the agreements are signed.

- Upon execution of the agreements, and completion of the rating agency process, the Financing Entity will enter into a short-term borrowing facility (the warehouse) in order to purchase the regulatory asset from the IESO before December 31st.

- In January 2018, the Financing Entity plans to issue long-term notes (bond issue) to empty the warehouse. Going forward, the Financing Entity will make monthly purchases of the regulatory asset. These purchases will be financed through the warehouse, provincial equity injection and OPG borrowing. It is expected that the Financing Entity will enter into approximately three bond issues per year in order to regularly pay down the warehouse.

Appendix

General Background

- Ontario Fair Hydro Plan Act ("**Act**") permits debt financings through one or more [special purpose] financing entities, to be managed by OPG
  - Proceeds of financings are used to acquire portions of the Fair Hydro regulatory asset ("**Investment Interests**") from IESO
  - Amounts owing will be serviced from "clean energy adjustments" ("**CEAs**") collected from "specified consumers"

- Hydro Trust [will be] established to facilitate the first financing transactions
  - Some combination of short-term "warehouse financings" and long-term notes will be issued
  - OPG, funded by the Province, will acquire subordinated debt issued by Hydro Trust
  - Proceeds raised before December 31st are expected to be $•M ($•M from external investors)
  - Future issuances will follow the same pattern (51% external/senior; 49% OPG/subordinated)

- Payment obligations will be owed to noteholders, lenders, credit enhancers, derivative counterparties, service providers, etc.
  - Payment obligations will be governed under a Trust Indenture
  - Hydro Trust payment obligations under the Trust Indenture are "Obligations Secured"

- Limited Guarantee from the Province of obligations payable by Hydro Trust when due
  - Province pays only upon a "Protection Event"
  - Limited Guarantee applies to almost all Obligations Secured
  - Certain "**Adherence Conditions**" to be satisfied before Limited Guarantee willy apply to material obligations

- Two relevant agreements:
  i. Change of Law Protection Agreement ("**Protection Agreement**")
  ii. Change of Law Process Agreement ("**Process Agreement**")

Technical Details – Limited Guarantee from the Province

- Triggered by a "**Protection Event**": Either:
  - There is a change of law (by the Legislature, LGIC, Ministers, government officials, government appointed boards, etc.) or implementation of a change in the organization or structure of the IESO or Ontario's electricity market undertaken at the initiative of the Province or and entity controlled by the Province that materially and adversely affects either (1) the ability of Hydro Trust to receive CEA cash flows or (2) the Protection Agreement or any Obligation Secured
  - A court of competent jurisdiction determines that any part of the OFHPA or the related regulations are *ultra vires* or invalid in a way that materially and adversely affects the ability of Hydro Trust to receive CEA cash flows and that in fact results in a deficiency such that Hydro Trust cannot pay Obligations Secured when they become due

- **Not covered by the Limited Guarantee:**
  - Amounts required to be deposited into collateral or reserve accounts established under the Hydro Trust program to credit enhance or provide liquidity for ultimate payment of Obligations Secured
  - Certain residual payments to OPG under the "payment waterfall"

- **Term:** Until all applicable Obligations Secured are paid in full

Technical Details – Adherence Conditions

- Certain minimal conditions will apply before the Limited Guarantee will attach to applicable Obligations Secured:
  - Incurrence of indebtedness to fund ownership of an Investment Interest
  - Entry into ISDA master agreements
  - Entry into service contracts with term > 3 years and aggregate payments >$5M that are not terminable on giving 3 years notice or less

- Those conditions are:
  - Must be an Obligation Secured under the Trust Indenture
  - Delivery of officer's certificate by OPG to Indenture Trustee confirming compliance with internal processes as between OPG and the Province in connection the Limited Guarantee (under the Process Agreement)
  - Province has not delivered a "Suspension Notice"

Technical Details – Process between Province and OPG

- Process Agreement between Province and OPG
  - Sets out informational requirements and supporting affirmations regarding incurrence or amendment of Obligations Secured
  - Contemplates some (limited) rights of Province to comment on disclosure and terms of Obligations Secured
  - Provides for OPG executive officer affirmation regarding certain matters (in a "**Process Certificate**")

- Delivery of Process Certificate by OPG executive officers to the Province setting out:
  - Material terms of obligations (incurrence or amendment)
  - Confirmation that terms are "**Substantially in the Form**" of the "**Reference Documentation**"
  - Confirmation that the offering document is "**Substantially in the Form**" of the "**Reference Documentation**"
  - Confirmation that no breach of the Process Agreement has occurred
  - Confirmation that the maximum payment amounts due in the future under the obligation plus other outstanding amounts will not exceed the "**Protection Agreement Maximum**"
  - Confirmation that any disclosure referring to the Protection Agreement or Process Agreement was made available to the Province
  - Confirmation as to reasonableness, arm's length terms and conditions, and compliance with the Act and the Financing Plan

- Suspension Right
  - Uncured breach of Process Agreement or breach by any party of other program agreements allows Province to suspend Limited Guarantee for new obligations, other than for refinancings
  - Exercise of suspension right does not impact prior Hydro Trust obligations covered under the Limited Guarantee

Technical Details – Obligation of Province on Protection Event

- Make payments on Limited Guarantee
- Payments replicate stream of CEAs to pay amounts due and payable by Hydro Trust
- In event of an acceleration of any Obligation Secured, Province would pay acceleration amounts, capped at scheduled payment amounts (without acceleration) plus an additional amount up to the "fair allocation" in the aggregate
- Province will be subrogated to rights of the creditors of Hydro Trust to the extent of performance under the Limited Guarantee

Technical Details – Obligations of OPG

- Process Agreement obligates OPG, but without limiting protections under existing indemnity agreement
  - Province has indemnified OPG, its subsidiaries, and each of their respective directors, officers and employees from liability resulting from activities under the Act and activities of Hydro Trust pursuant to an Indemnity Agreement

- If there is any conflict between the Process Agreement, the Protection Agreement and the existing Indemnity Agreement in respect of any matter relating to the Province's indemnification obligations in favour of OPG, the Indemnity Agreement is paramount