BRIEFING NOTE
OPG AMENDING ARTICLES

ISSUE: On November 24, 2017, Ontario Power Generation (OPG) requested a Shareholder Resolution to amend OPG's Articles to create a new class of non-voting, redeemable shares (the "Class A Shares"). The Province's purchase of the Class A Shares, also known as an equity injection, will help support OPG's participation in the Fair Hydro Plan ("FHP").

As part of this process, the following materials are attached for the Minister of Energy's signature:

I. Shareholder Resolution amending OPG's Articles to be signed by the Minister of Energy

II. Master Share Subscription Agreement to be signed by OPG and the Minister of Energy. This agreement outlines the share subscription process, expected to take place once per month.

III. Delegation for other supporting materials to facilitate the day-to-day administration of the equity injection.

    - One delegation to execute payments under the Master Share Subscription agreement, and another delegation under the Financial Administration Act to certify the payments under the administrative agreement with the Ontario Financing Authority.

BACKGROUND

The Government's Fair Hydro Plan (FHP), was formally established through legislation under the *Fair Hydro Act, 2017* (the "Act") and various regulations. The FHP involves the refinancing of the Global Adjustment (GA) and requires Ontario Power Generation (OPG) to undertake financing activities. These financings are designed to implement the program and fund the rate reductions being provided to specified consumers pursuant to the Act.

One initiative under the FHP involves the Independent Electricity System Operator (IESO) receiving less from distributors (who receive less from specified consumers) than is required to settle the monthly amounts it owes, under contract, to generators and other contract-counterparties under the GA. The IESO must record these monthly differences in a variance account, per section 23 of the Act, which is a regulatory asset, per s. 24 of the Act.

Pursuant to section 26(1) of the Act the IESO has the right to transfer specified portions of the regulatory asset to financing entities which OPG, as Financial Services Manager (FSM), may establish pursuant to subsection 22(2) of the Act.

OPG was appointed the Financial Services Manager as part of the, in accordance with section 18 of the Act. As the Financial Services Manager, OPG will create a special purpose financing entity to acquire specified portions of the regulatory asset periodically from IESO.

The initial transfer from the IESO forms the basis of the Investment Asset referred to in subsection 28(1) of the Act, while ongoing transfers add to that asset. The acquisitions of specified portions of the regulatory asset by financing entities established by OPG as FSM are to be financed by senior debt from external sources and subordinated debt from OPG.

The Province has agreed to fund up to 44 percent of the total funding requirement for the purchases from the IESO required in respect of the investment interest through equity injections in OPG (the “Equity Injection Plan”). The equity injections are provided to OPG to help keep its commercial capital structure in line as the company supports the FHP.

EQUITY INJECTION PLAN

To facilitate the Equity Injection Plan, OPG intends, subject to shareholder consent, to create a new class of non-voting, redeemable shares the “Class A Shares”. The Province would subscribe for Class A Shares periodically. OPG would then invest these amounts into the debt of the financing entity.

To create the Class A shares, OPG’s Articles must be amended. Pursuant to subsection 168(5) of the *Business Corporations Act* (Ontario), the Minister of Energy, as shareholder, must provide the Corporation’s Board of Directors with consent to the amendment of the Articles through a Shareholder Resolution. The resolution authorizes OPG to amend its Articles in order to

- create and issue an unlimited number of non-voting Class A and common shares and,
- redeem the shares at any time at a price determined by the formula specified in the applicable share conditions.

Following the issuance of the Shareholder Resolution, OPG and the Province would sign a Master Share Subscription Agreement that contains details about the monthly share subscription transaction.

The Ontario Financing Authority (OFA) will make the payments to OPG on behalf of the Ministry for the equity injection. The Ministry and OFA are in the process of negotiating an agreement outlining this process.

Given the equity injections will take place once per month, the Ministry recommends the delegation of signing authority to an Assistant Deputy Minister for supporting material under both the Master Share Subscription Agreement and a subsequent OFA agreement. Details on these processes are included in the appendices.

November 24, 2017
Strategic Policy & Analytics Branch

Appendix A: OPG Equity Injection: Supporting Documentation
The following documents need to be signed to facilitate the monthly payments from ENERGY to OPG to support the Fair Hydro Plan.

1. Shareholder Resolution: Class A Shares

- Minister of Energy signs Shareholder Resolution authorizing OPG to amend its articles.
- This will allow OPG to issue an unlimited number of Class A shares

2. ENERGY-OPG Master Subscription Agreement (MSA)

- Minister of Energy & OPG sign MSA outlining the process for periodic payments from the Province to OPG.
- OPG will use payments to fund debt obligations as Financing Entity.
- ENERGY will purchase Class A shares for its equity injection payments.

3. ENERGY-OFA Memorandum of Understanding (MOU)

- SNAP ADM & OFA sign MOU confirming that OFA will make the equity injection payments to OPG on ENERGY's behalf.
- The MOU outlines the process for how information will be exchanged and the roles of each party.

4. Signing Delegation: Equity injection process

- Delegation to ADM for signing routine monthly documents in support of the equity injection process.
- Delegation is needed for 1) executing payments under the MSA and 2) certifying payments under the MOU.

Appendix B: Monthly OPG Equity Injection Process

Process from OPG-ENERGY Master Share Subscription Agreement