ONTARIOPOWER GENERATION

**Bernard Lord**
Board Chair

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May 19, 2017

The Honourable Glenn Thibeault
Minister of Energy
4th Floor, Hearst Block
900 Bay Street
Toronto, Ontario
M7A 2E1

Dear Minister Thibeault:

I am writing in response to your letters dated April 13 and May 11, 2017 in which you requested a plan ("**the Plan**") from OPG for the implementation of the Global Adjustment (GA) Refinancing component of the Province's Fair Hydro Plan.

On May 12, 2017, the OPG Board of Directors approved the business case for OPG's participation in the Fair Hydro Plan, based on the *Ontario Fair Hydro Plan Act (*the "**Proposed Legislation**") as tabled on May 11, 2017, and subject to the completion of certain conditions. These conditions are set out in the attached.

OPG has prepared an initial draft of a Plan, including the proposed structure and strategy for financing the GA deferrals under the Fair Hydro Plan. The following is a summary of the draft plan:

- A financing entity (which will most likely be a trust) will be created that is ring-fenced from OPG's primary businesses. The financing entity will purchase from the IESO, the deferral accounts/regulatory assets created by the consumer bill reductions under the Fair Hydro Plan. OPG will be the manager of the financing entity.
- The financing platform to fund the financing entity will be developed to access both the Canadian and US markets in order to optimize pricing and flexibility.
- The financing platform is expected to comprise a majority of senior debt financing raised in the capital markets (at least 51%) and subordinated debt from OPG (up to an aggregate of 49%) and/or the capital markets. The subordinated debt is proposed to be stratified into at least two tranches, the significant majority of which (44% of the total financing) will be funded by equity injections into OPG, which will on lend into the financing entity. A portion of the subordinated debt (5% of the total financing) is proposed to be funded by OPG itself through debt raised in the capital markets.
- In terms of borrowing and repayment of financing costs for the deferrals, is expected that:
    - o during the first 10 years of the Fair Hydro Plan (2017- 2026), the debt created by the deferral of electricity charges will accumulate, together with associated interest costs & other fees, that in combination will establish the regulatory assets; and

- starting 2027, the accumulated debt created by the deferral will be recovered and paid down by 2047. Similar to mortgage style debt payment, a combination of principal and interest will be paid to lenders during this 20-year period.

The Plan will be finalized and submitted following clearance of the approval conditions, which include the passage of the Legislation and attendant regulations, consistent with OPG's requirements, as well as the settlement of principal agreements governing the financing of the financing entity.

With respect to the completion of the regulations, I understand that the detailed requirements together with draft language for certain provisions were delivered by Torys counsel to the Ministry of Energy's legal counsel on May 16, 2017. These requirements incorporate all the principal matters that OPG and its respective legal counsel, financial advisors and the dealers who will place the debt in the capital markets have identified as necessary to be covered in the regulations in order for the Global Adjustment deferrals to be financeable in the capital markets and for the desired accounting treatment to be obtained. These requirements will satisfy the Board's approval. OPG looks forward to working closely with the Ministry on the drafting of these regulations and exchanging early drafts in order to achieve our respective objectives.

I would like to confirm receipt of the shareholder resolution amending OPG's Articles of Amendment which closes another of the Board's conditions. We are in the process of filing them with the Province.

We expect to submit the final Plan as soon as practicable after the regulations have been made and the principal agreements have been settled.

Sincerely,

Bernard Lord
OPG Board Chair

cc: Jeff Lyash, President and CEO, OPG
Serge Imbrogno, Deputy Minister of Energy

Enclosure

**CERTIFIED COPY**

**RESOLUTION OF THE BOARD OF DIRECTORS**
**OF**
**ONTARIO POWER GENERATION INC.**

Re: Schedule A – Conditions of Special Committee Recommendation – OPG's Participation in Ontario's Fair Hydro Plan

The Board of Directors approved the following resolution on May 12, 2017 regarding OPG's Participation in Ontario's Fair Hydro Plan.

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**SCHEDULE "A"**
**CONDITIONS OF SPECIAL COMMITTEE RECOMMENDATION**

1. The Province of Ontario enacts the legislation provisionally titled, "the Ontario Fair Hydro Plan Act, 2017" and its attendant Regulations that are consistent with OPG's requirements and objectives for participating in the Fair Hydro Plan, as outlined in the Management Business Case, including as detailed in Appendix 2 Part B "Regulations" and Appendix 2 Part C "Term Sheets For Material Contracts Required to Implement the Financing Entity";

2. OPG's Articles of Amalgamation are amended by the Province, as the Company's sole shareholder, to permit OPG to participate in the public debt markets without restrictions;

3. The Fair Allocation Amount (as defined in the Management Business Case) eligible for refinancing is confirmed by the Province in writing;

4. Evidence satisfactory to the Special Committee as to the enforceability of the Guarantee; and

5. OPG management takes guidance from, and provides regular updates to, the Special Committee in respect of the foregoing in the form, manner, regularity and duration requested by the Special Committee.

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Certified to be a true and correct copy of the resolution of the Board of Directors of the Corporation passed by the Board of Directors at a meeting thereof duly convened and held on the 12th day of May 2017 which resolution is in full force and effect, unamended, on the date hereof.

Dated this 17th day of May, 2017

Catriona King

Catriona King
Vice President, Corporate Secretary