Technical Briefing – Financing Update For Ontario's Fair Hydro Plan

February 2017

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Ontario’s Fair Hydro Plan – Context

Ministry to send updated points – fit on one slide

- Ontario’s Fair Hydro Plan (OFHP) was introduced to provide rate relief to residential consumers, farms, most small businesses.
- OFHP is comprised of a series of initiatives, including the refinancing of a portion of Global Adjustment (GA).
- Refinancing the GA, which pays for the bulk of the recent generation and supply investments in the electricity system, provides rate relief by matching the cost of electricity investments with the expected useful life of the generation that has been built.
- Since the March 2, 2017 OFHP announcement, a number of key milestones have been reached in the implementation of OFHP, including:
  - May 1, 2017: Partial Global Adjustment (GA) refinancing incorporated into the OEB’s Regulated Price Plan (RPP) report;
  - June 1, 2017: The Fair Hydro Act, 2017 (FHA) received Royal Assent;
  - June 15, 2017: Regulations to enable new and enhanced electricity social programs and shift associated program cost from the rate-base to tax-base came into effect; and
  - July 1, 2017: The full ~~25% reduction~~ of electricity bill came into effect on July 1, 2017, including the 8% rebate equivalent to the HST.
- OPG has been working with the government, the Independent Electricity System Operator (IESO), the Ontario Energy Board (OEB) and legal, financial and energy sector third-party experts on the implementation of OFHP.

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Role of Ontario Power Generation (OPG)

- The OHFP identified OPG as the Financial Services Manager (FSM) assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with GA refinancing.

- OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

    - In addition to executing more than $2B in multiple project financing initiatives over the past number of years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

    - OPG currently manages approximately $22 billion in nuclear funds through the Decommissioning Segregated Fund and the Used Fuel Segregated Fund, and $15 billion in pension funds.

    - OPG has developed solid investor relationships and has a large investor base in the structured finance space for financing Ontario's Fair Hydro Plan (OFHP) initiative.

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Fair Hydro Trust

- On November 22, 2017, OPG’s Board of Directors approved OPG’s plan for participation in OFHP and to act as the FSM.
    - The Fair Hydro Trust was established on Dec 20, 2017
- OPG and expert advisors have been in discussions with rating agencies regarding the debt offering
- Rating agencies have assigned provisional ratings of Aa2 (Moody’s) and AAA (DBRS) to the Fair Hydro Trust senior debt

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Fair Hydro Trust – Financing

- By mid-December, $1.2 billion in GA payments had been deferred under OFHP and held by IESO as a regulatory asset.

- Fair Hydro Trust purchased this asset in December 2017, and the purchase was financed as follows:

    - Short -term borrowing by the Trust through an asset backed bank syndicate in December (51%), [$400] million of which was refinanced in February by senior debt raised through initial offering in the capital markets;

    - Remainder was financed by OPG

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OPG’s Fair Hydro Trust – Initial Debt Offering

- Investor roadshows held in Montreal, Toronto, Winnipeg and Vancouver week of January 29
- Strong investor appetite resulted in an interest rate of x.xx%, the lowest cost financing in the Canadian energy sector
    - For comparison purposes, OPG’s debt financing in October 2017 was priced at 3.32%
- Investors include two green funds, reflecting the role the program plays in financing green energy projects

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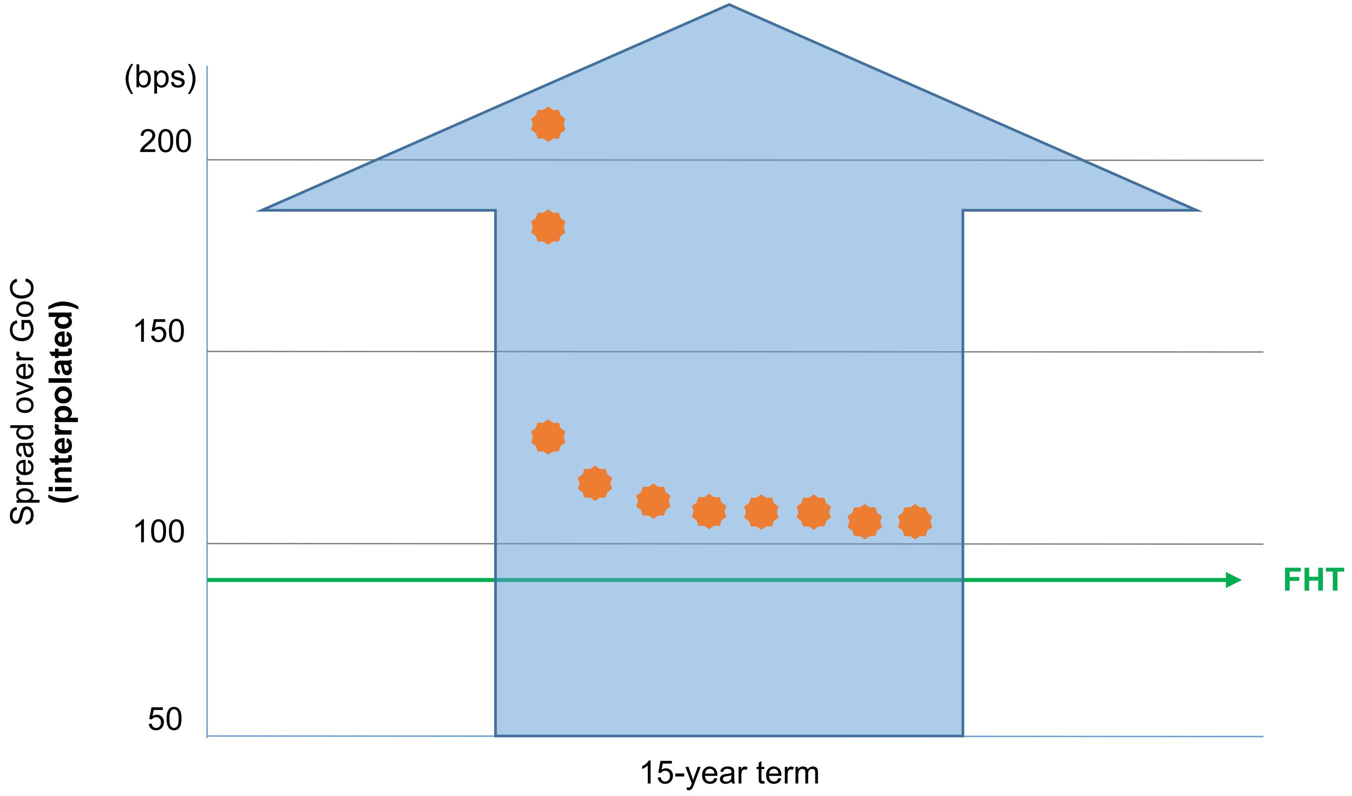
Fair Hydro Trust – Comparison to Electricity Sector

- FHT will finance the FHP more cost efficiently than other utilities and energy companies. The following diagram provides an indicative financing cost for each company, represented as a basis point (bps) spread over the Government of Canada curve (GoC). FHT has the lowest relative cost.



Comparator Companies
Algonquin Power
Bruce Power
Enbridge Gas Distribution
Epcor Utilities
FortisAlberta
FortisBC
Hydro One
Nova Scotia Power
Toronto Hydro
TransCanada Pipelines

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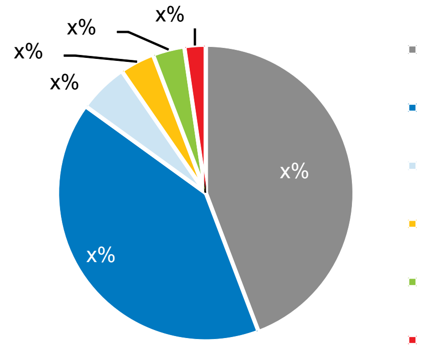
Debt Offering Summary – TBD

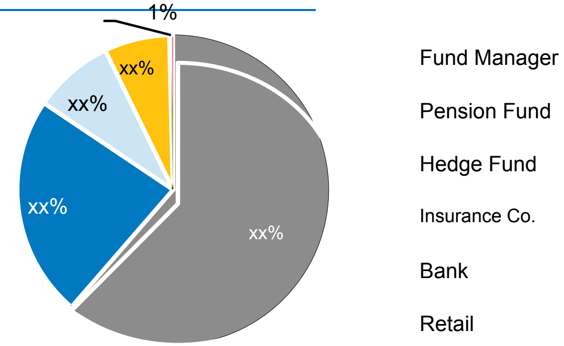
TERMS SUMMARY

Issuer	Fair Hydro Trust .
Pricing Date	xx-Feb-18
Settlement Date	xx-Feb-18
Ratings (DBRS/Moodys)	xxx
Amount	$xxx million
Coupon	x.xx%
Coupon Dates	xxx and xxx
Maturity Date	x-xxx-xx
Spread vs. Benchmark	+xx bps (credit: +xx bps, curve: +xx bps)
GoC Curve	GoC x.xx% due xx, xxxx GoC x.xx% due xx, xxxx
GoC Benchmark	GoC x.xx% due xx, xxxx
Benchmark Price/ Yield	$xx.xx / x.xx%
Price	$xxxx
Yield	x.xxx%
Syndicate	xxxx

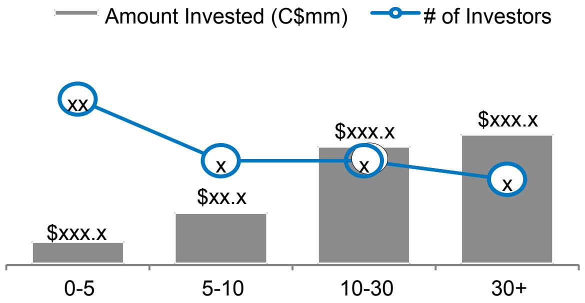
INVESTOR LOCATION



INVESTOR TYPE



ALLOCATION HISTOGRAM[1]



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1. Co-Lead Agent & Bookrunner.

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Fair Hydro Trust – Financing Moving Forward

- In subsequent months it is expected that the Fair Hydro Trust will purchase subsequent assets from IESO (approximately $200 million per month) and raise any required financing
- It is anticipated that a second round of long-term financing will take place in Q2 2018 to refinance interim short term borrowings for the Trust
- The Trust will continue to borrow longer term funds through the debt capital markets 2-3 times each year to finance the asset purchases from the IESO

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Reporting Transparency

- Due to its ownership of the Fair Hydro Trust's subordinated debt and control over its key activities, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

- OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process

- The Trust's activities will be reported as a separate segment in OPG's overall results

Questions?