Fair Hydro Trust

Province of Ontario Briefing

June 2018

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I. Introduction

Introduction

Fair Hydro Plan	• The Province of Ontario announced the Fair Hydro Plan (FHP) on March 2, 2017, which proposed to lower the average electricity bill for eligible customers (Specified Consumers) by 25% • The 25% reduction includes an 8% rebate equivalent to the provincial portion of the harmonized sales tax granted by the Ontario government in January 2017
Legislation	• On June 1, 2017, the Ontario Legislature passed the *Ontario Fair Hydro Plan Act, 2017* (the FHPA or the Act) to give effect to the FHP • The FHPA is supplemented by regulations related to the implementation of the Act (the Regulations and together with the FHPA, the Legislation) • The FHPA imposes an irrevocable and non-bypassable charge recoverable from Specified Consumers which is referred to as the Clean Energy Adjustment (CEA or CEAs) • The CEA will be determined by Ontario Power Generation (OPG) in accordance with the Legislation in its role as Financial Services Manager (FSM) under the Act • The CEA will be determined for each six month reference period and converted by the Ontario Energy Board (OEB) into a $/kWh rate and added to electricity invoices sent to Specified Consumers commencing on May 1, 2021 • From July 1, 2017 to April 30, 2021 (the Moratorium Period), no payments in respect of CEA are expected to be collected; during the Moratorium Period and extending to July 31, 2021, the Independent Electricity System Operator (IESO) is obligated to pay all funding and other expenses of the Trust (excluding principal) (referred to as Carrying Costs) under the Legislation

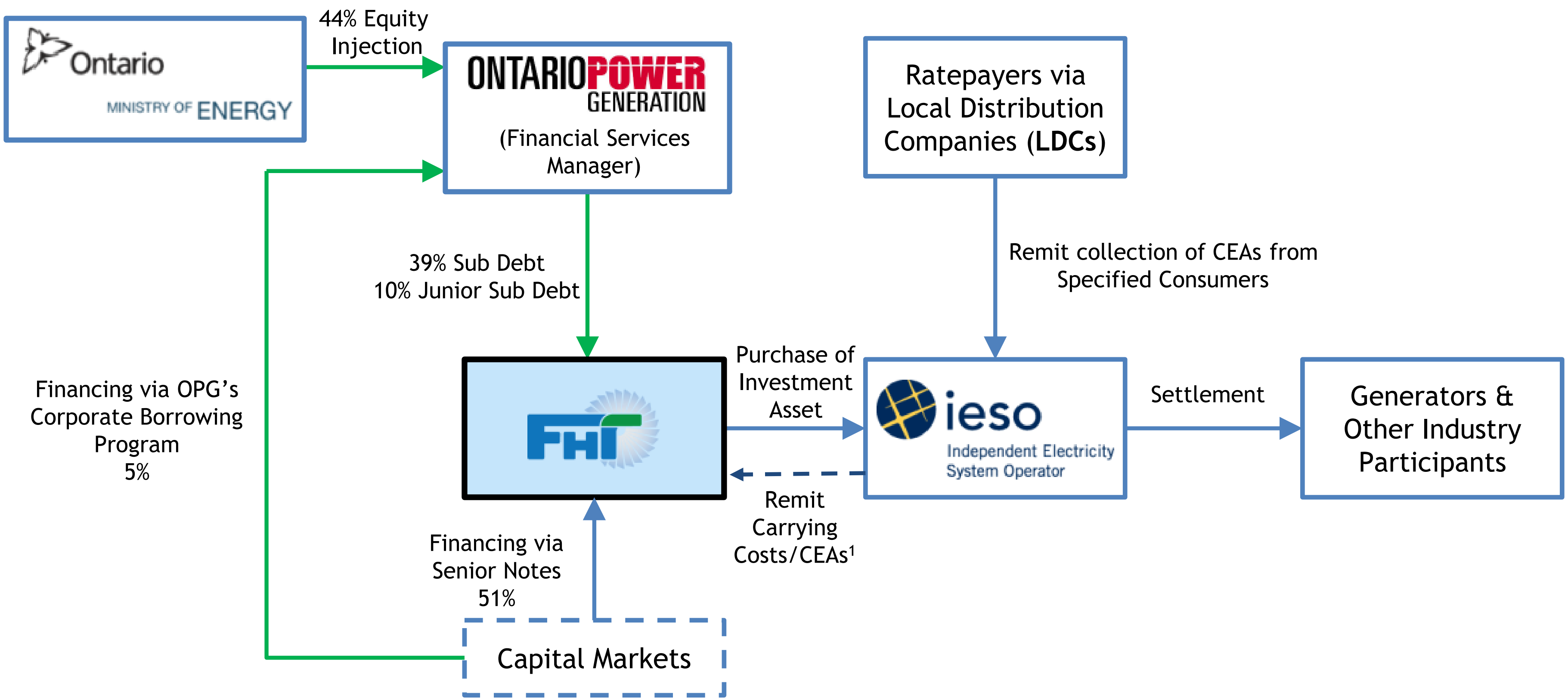
Fair Hydro Trust

- OPG was appointed as the Financial Services Manager under the Act and on December 20, 2017 caused to establish the **Fair Hydro Trust** (FHT or the Trust) as a financing entity contemplated by the Act
- The implementation of Ontario's Fair Hydro Plan is financed by FHT through the issuance of senior, subordinated and junior subordinated notes
- Structured to be bankruptcy remote and even though consolidated by OPG on an accounting basis, the Trust is ring fenced from OPG's other creditors
- The FHT term notes will be repaid through the CEA payments received from Specified Consumers

II. FHT Structure and Operations

Transaction Overview

Transaction Structure

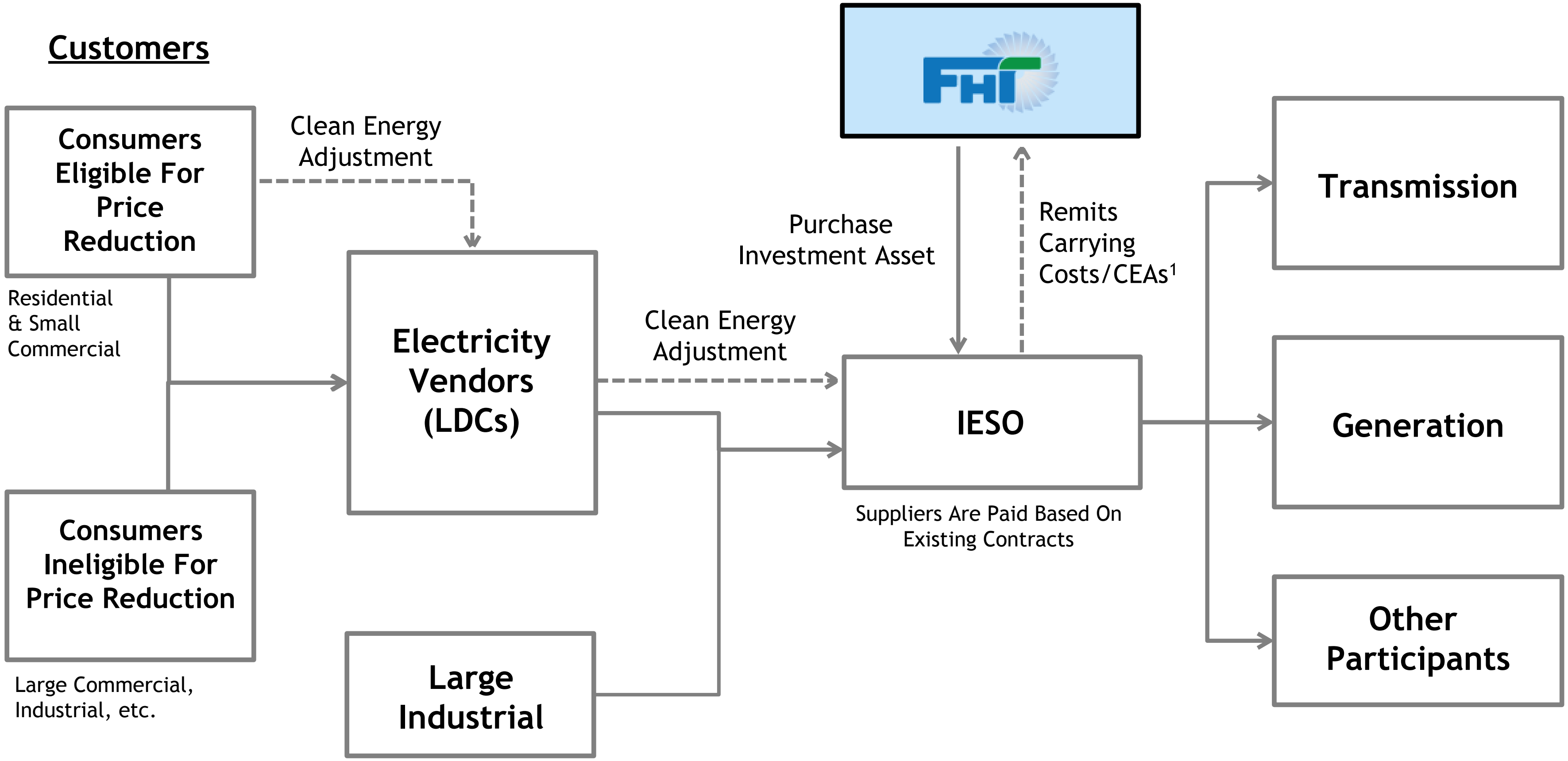


[1] The IESO is required to pay and remit Carrying Costs to the FHT up to July 31, 2021. Commencing May 1, 2021, CEAs will be included on invoices sent to Specified Consumers and collections will be used to pay all funding and other expenses of the Trust. The additional three months of IESO remittances from May 1, 2021 to July 31, 2021 is intended to cover billing and collection lags from the introduction of CEAs.

Note: The diagram above is based on subordinated debt of 49% of all outstanding debt. The subordination level may vary but must be at least 35% of all outstanding debt.

Note: The assets and liabilities of the Trust are deemed, under the *Electricity Act, 1998* to exclude the assets and liabilities of OPG, and vice versa.

Electricity Market with FHT



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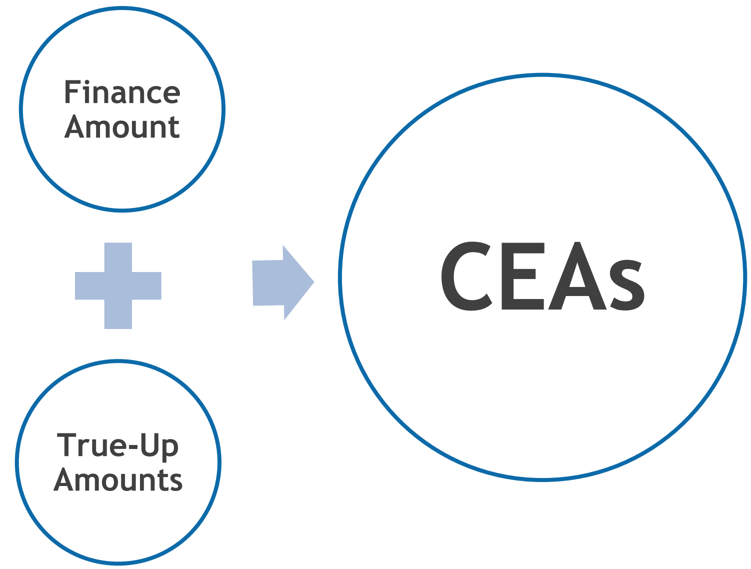
Clean Energy Adjustments

- Under the FHPA, the CEA is the amount payable by Specified Consumers to cover the financing and other costs related to the acquisition by the Trust of the Investment Asset and the associated costs of the financing, including payment of principal, interest, operating costs of the Trust and funding of reserve accounts
- CEAs shown on an invoice issued to Specified Consumers represent the amount of the consumers' indebtedness and may not be set off or bypassed



Finance amount is an estimate of the amount payable by the Trust mainly in respect of principal payments, interest costs, Trust expenses and taxes, reserve account deposits and derivative payments

True-up amounts capture the difference between the finance amounts incurred by the Trust and the CEAs collected from Specified Consumers and also include other reasonably foreseeable differences due to various factors (e.g. consumer defaults and delays, billing lags, write-offs and variations in electricity consumption)

Billing and Collection of CEAs

1

Financial Services Manager

Determines the CEA for each month in a reference period and notifies the OEB of the CEA amount

IESO

Provides consumption forecast information and notifies the OEB

2

OEB

Determines volumetric rates[1] to invoice Specified Consumers to recover CEA expressed as a cent per kWh

3

Electricity Vendors

Invoice Specified Consumers for CEA amount by using volumetric rate set by OEB and report the amount invoiced and collected from consumers to the IESO

4

Specified Consumers

Must pay invoice from Electricity Vendors which includes the CEA amount

5

Electricity Vendors

Must collect CEA amounts from Specified Consumers, hold amounts in a segregated account and remit CEA amounts to the IESO (separate from any other amount collected and remitted)

6

IESO

Must receive CEA amounts paid by Electricity Vendors, hold CEA amounts in trust in a segregated account and remit the CEA amounts to the Fair Hydro Trust

[1] The rates will be determined by dividing the CEA amount by the forecasted energy consumption in the reference period by Specified Consumers.

Legislative and Regulatory Framework

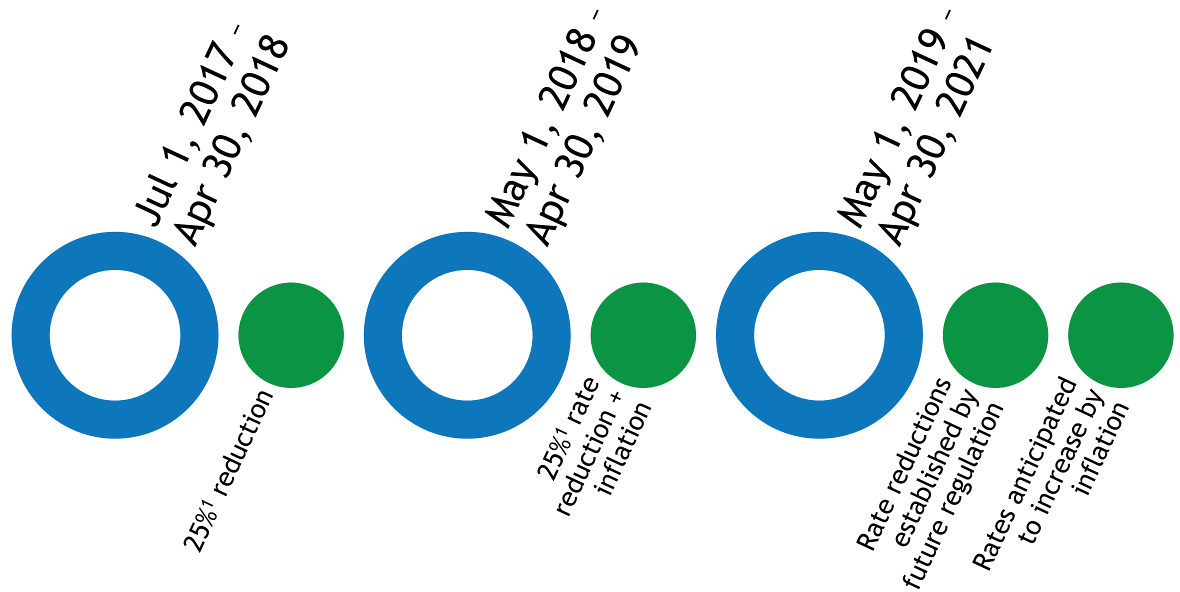
Legislation Overview

Specified Consumers

- The Act names a category of consumers that generally is comprised of residential consumers, small businesses and farms
- Includes consumers with a demand for electricity of 50 kW or less or those that use not more than 250,000 kWh of electricity annually

Rate Reductions

(Moratorium Period)
July 1, 2017 – April 30, 2021



[1] Based on a typical Toronto Hydro customer; the amount of the reduction for any given Specified Consumer may vary from this account.

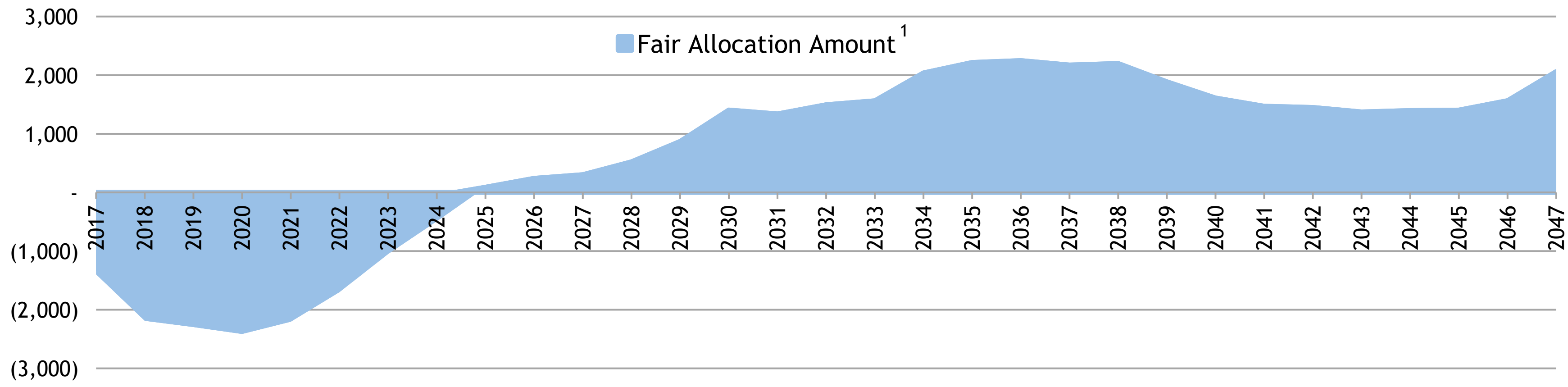
Legislation Overview, cont'd

Regulatory Asset	• Each month the IESO determines the IESO deferral (the shortfall that results from the Fair Adjustment together with Carrying Costs paid, financing costs and other related costs) and records this amount in a variance account • The IESO has the right to recover the balance recorded in the variance account from Specified Consumers (such right is the Regulatory Asset) • The IESO may from time to time transfer a specified portion of the Regulatory Asset to the Trust for a cash purchase price equal to the corresponding amount recorded in the variance account
Investment Asset	• The Trust is not obligated to purchase Regulatory Assets from the IESO • If the IESO and the Trust agree to the transfer of a specified portion of the Regulatory Asset, such transfer results in the creation of a current and irrevocable property right that is immediately vested in the Trust (such right is an Investment Interest in an Investment Asset) • By acquiring an Investment Interest, the Trust will be entitled to recover all of its associated financing costs and acquires the right to collect, receive and recover CEAs from Specified Consumers in accordance with the Legislation
Moratorium Period *(July 1, 2017 to April 30, 2021)*	• CEAs are not permitted to be collected from Specified Consumers during this period • The IESO is obligated to pay the Trust all Carrying Costs, excluding repayment of principal on any debt obligations, during the Moratorium Period and extending to July 31, 2021. The Carrying Costs incurred by the IESO will be added to its Regulatory Asset variance account pursuant to the Regulations • As security for the performance of its obligations, the IESO has granted the Trust a first-priority security interest in its accounts receivable owing by Electricity Vendors to the IESO • The IESO has a $2 billion credit facility from the Ontario Financing Authority (OFA) which can be used, among other things, to fund payments of the Carrying Costs

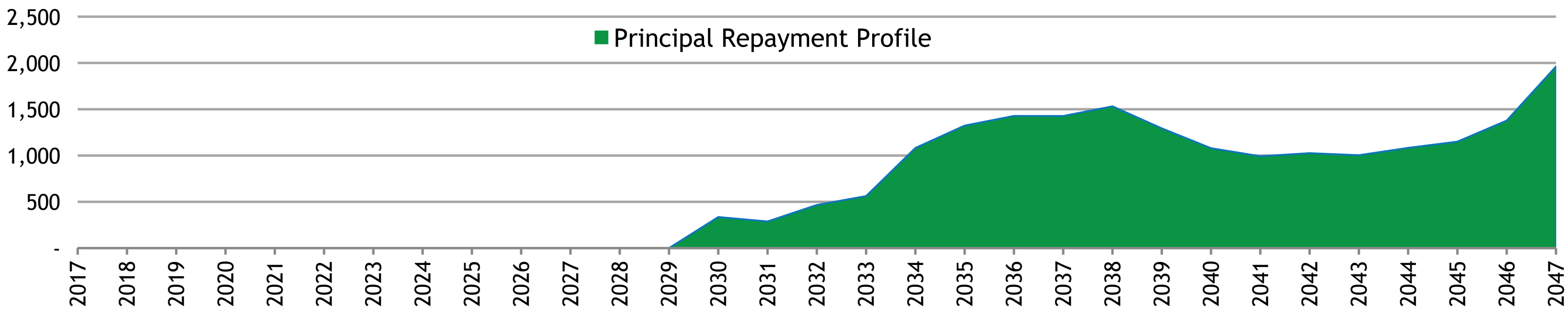
Fair Allocation Amount

The Fair Allocation Amount (FAA) is an amount calculated under the FHPA by the Minister of Energy in respect of each reference period that, among other things, allocates the estimated value of clean energy costs in proportion to the relative attribution of the value of clean energy benefits among Specified Consumers

Fair Allocation Amount ($ million)



Principal Repayment Profile (derived from the FAA)



[1] Prior to 2025, the above graph of the FAA incorporates the Readjustment Amount. The Readjustment Amount represents the estimated amounts by which Specified Consumers overpaid for clean energy initiatives in the past. It has been incorporated into the FAA to further reduce electricity bills for such consumers.

Change of Law Protection Agreement

Purpose	Provides assurance to Specified Creditors[1] that upon the occurrence of a Protection Event, the Province of Ontario is required to make payments in respect of all Approved Obligations when due and payable
Protection Events	The occurrence of any of the following events: (1) • The Legislature repeals (and does not replace on an equivalent basis) or amends the Act or any portion thereof as in effect on the date hereof • The Legislature enacts or amends any other statute • The Lieutenant Governor in Council repeals (and does not replace on an equivalent basis) the regulations made under the Act or any portion thereof as in effect on the date hereof • The Lieutenant Governor in Council makes or amends any "Regulation" as in effect on the date hereof • The 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 an entity controlled by the Province in each case that adversely affects the ability of the Trust to receive amounts in respect of its Investment Interest so that it can pay Approved Obligations when due and payable, taking into account any funds available in reserve accounts, any credit enhancement available and any reasonably expected potential effect of a true-up amount; or (2) • A court of competent jurisdiction determines that all or a portion of the Act or the regulations made under the Act, is *ultra vires* or invalid in a way that adversely affects the ability of the Trust to receive amounts in respect of its Investment Interest so that it can pay Approved Obligations when due and payable

Note: Additional information on the Change of Law Protection Agreement can be found in the Appendix.

[1] **Specified Creditors** refers to any Person that is owed a payment obligation by the Issuer that gives rise to a Finance Amount in respect of the Issuer.

Financing Program

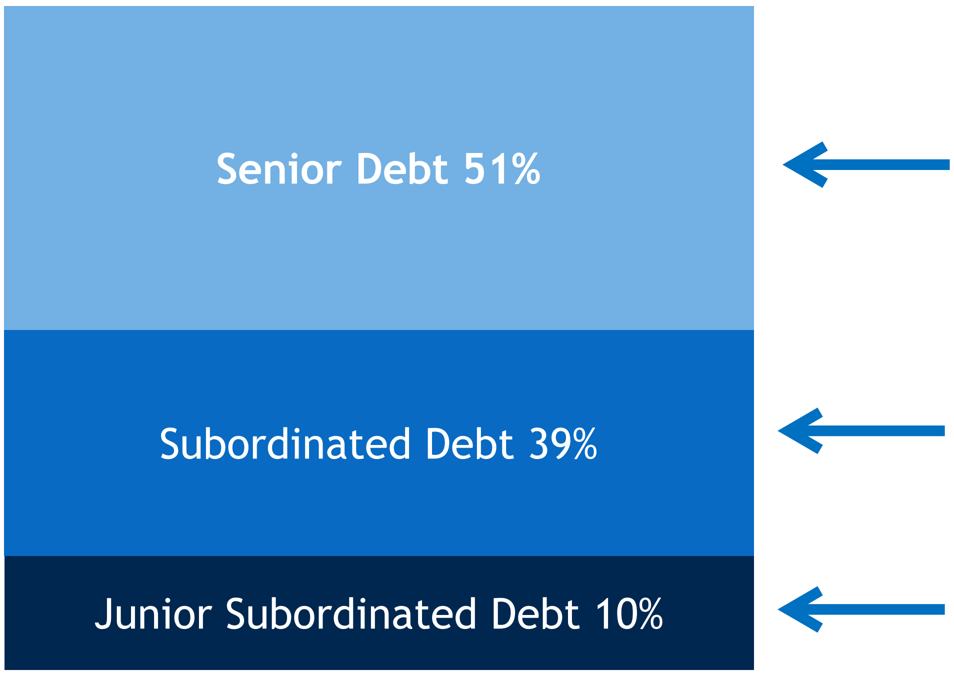
Financing Plan/Strategy

- OPG as FSM is responsible for administering the FHT financing program
- Given the size (~$20 billion) and longevity (~10 years) of the FHT financing program, the funding strategy has been designed to provide flexibility
- Warehouse financing (ABCP conduit and bank funded senior debt) and subordinated warehouse debt and junior subordinated warehouse debt funded by OPG will be used to fund monthly Regulatory Asset purchases from the IESO
  - Periodically refinance the warehouse facility through the issuance of term debt (likely access the market 2-3 times per year)
- Term debt can take the form of bullet bonds or could be issued as amortizing bonds

Warehouse Financing	• ABCP conduit and bank funded senior debt with subordinated debt funded by OPG will be used by the Trust to fund monthly Regulatory Asset purchases from the IESO
Term Debt	• Term debt issuances will be used to refinance warehouse financing and the subordinated and junior subordinated warehouse debt funded by OPG • Both Canadian term debt and U.S. term debt market will be considered • Maturity profiles will be structured to ensure reasonable alignment with the FAA (bullet bonds with sinking funds or amortizing bonds) • FHT may issue debt that may be refinanced in the future
Subordinated Debt	• Subordinated debt provides credit enhancement for senior debt (ranks behind senior debt in cash flow waterfall)

Financing Structure

- The Trust will fund Regulatory Asset purchases through the issuance of senior, subordinated and junior subordinated secured debt
- Senior debt (51% anticipated) will be sourced monthly from committed warehouse facilities, and the periodic issuance of term debt
- Subordinated debt (49% anticipated; minimum of 35% required[1]) will be purchased by OPG, primarily funded by equity injections from the Province (44% of 49%) and the remaining portion from OPG (5% of 49%)



<u>Senior Notes</u>
Warehouse facilities and term debt issuances (in Canada and/or the U.S.)

<u>Subordinated Notes</u>
Provided to Trust by OPG via equity injection from the Province

<u>Junior Subordinated Debt</u>
- OPG equity injection (5%) via its corporate borrowing program
- Provided to Trust by OPG via the Province (5%)

Note: Assumes 49% subordinated debt.

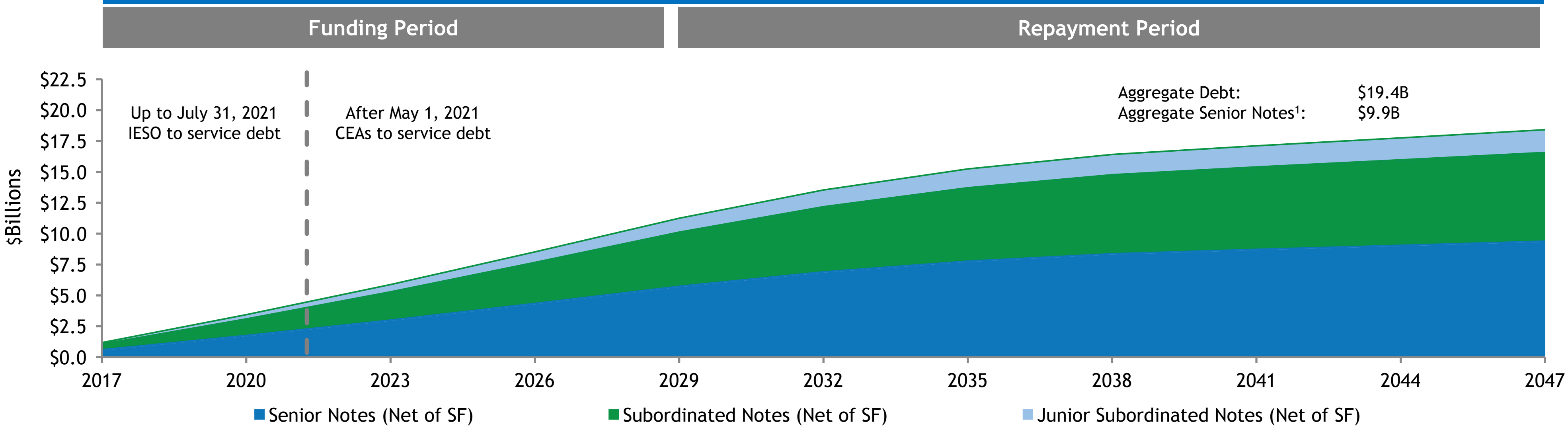
[1] FHT is required at all times to ensure that all outstanding subordinated and junior subordinated debt be not less than 35% of all outstanding debt.

Aggregate Financing Program

Illustrative Debt Summary - Funding & Repayment Period (Annual)

- Based on the Fair Allocation Amount and the Province's electricity bill reduction targets, the following debt profile for the program is expected, peaking at just under $20 billion by 2029
- Various tranches of debt will be issued periodically during the period of 2018 - 2028, which are expected to mature over a period after 2029

Illustrative Aggregate Funding and Repayment Profile (Annual; Net of Sinking Fund (SF) Payments)



[1] Assumes 51% Senior Notes

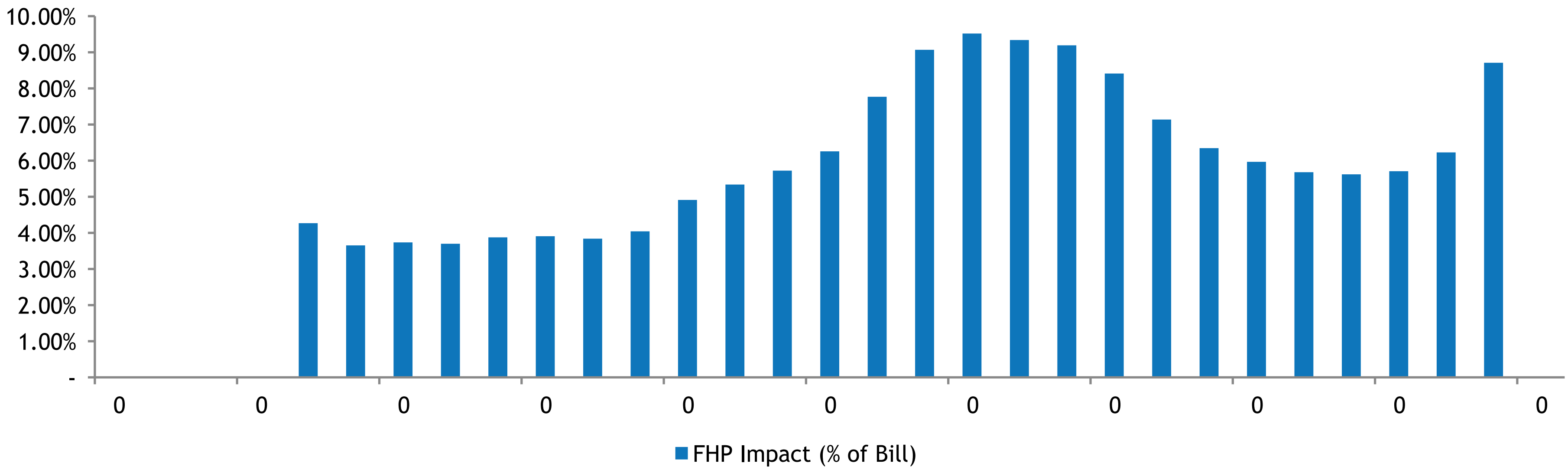
Note: During the Moratorium Period and extending three additional months to July 31, 2021, the IESO is required under the Regulations to pay all Carrying Costs. The additional three month period is intended to cover the billing and collection lag from the introduction of Clean Energy Adjustments in May 2021.

Consumer Bill Forecast with FHP

RPP Bill Forecast - FHP Impact % of Total Bill (C$ per Month)

- Over the duration of the Fair Hydro Program, the CEA for the average residential customer is anticipated to remain below 10% of the total electricity bill
- Maximum CEA as a percent of the total bill is forecast to be 10.0%
- Average CEA as a percent of the total bill is forecast to be 6.9%

RPP Bill Forecast (December Year-End) - FHP Impact as % of Total Bill[1]



[1] Presents % of total bill at December year-ends; individual months in any given year may have a higher or lower impact as % of total bill.

FHT Term Debt Issuances To-Date

- OPG as FSM has secured two of the lowest financing costs for term debt in the Canadian energy sector
- A summary of FHT's term debt outstanding as at April 30, 2018 is provided below

III. OPG's Transparent Reporting

OPG’s Transparent Reporting

Financial statements

- OPG’s consolidated quarterly and annual financial statements are posted on OPG.com and filed with SEDAR. The statements disclose FHT’s activities including:
  - asset acquisition from the IESO and cumulative asset value (classified as ‘financing receivables’),
  - senior debt incurrence and related interest rates
- FHT’s audited annual financial statements will be posted on OPG.com
- The 2017 OPG and FHT audited financial statements received an unqualified audit opinions from its external auditors

Application for fees with the OEB

- OPG as FSM is entitled to charge the Trust a management fee and is required to submit to the OEB on or before February 28 the proposed base fee and variable fee for the period beginning on April 1 in the year of the submission and ending on March 31 in the following year

IV. Indicative FHT Timeline

Indicative FHT Timeline

Expected Timing	FHT Activity	Required Action from Province
June 2018	Purchase asset from IESO	44% equity funding
July 2018	Purchase asset from IESO	44% equity funding
August 2018	Purchase asset from IESO	44% equity funding
September 2018	Issue term debt (approx. $500M senior)	N/A
September 2018	Purchase asset from IESO	44% equity funding
October 2018	Purchase asset from IESO	44% equity funding
November 2018	Purchase asset from IESO	44% equity funding
December 2018	Purchase asset from IESO	44% equity funding
January 2019	Purchase asset from IESO	44% equity funding
January 2019	Issue term debt (approx. $400M senior)	N/A
February 2019	Purchase asset from IESO	44% equity funding
End of March 2018	Deliver Financial Services Manager Report	N/A