



# OPG Asset Acquisition Growth Considerations

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**ONTARIO****POWER**  
GENERATION



# Executive Summary

- OPG has an immediate opportunity to acquire a 1,005 MW combined cycle gas plant and a 76 MW solar portfolio
- As a generation company based in Ontario, these assets are squarely aligned with OPG's strategic direction
- Assets will be integrated into OPG's RGPM business unit and align well geographically
- Economic returns are attractive and contribute to Shareholder return expectations
- Repatriation of asset ownership for benefit of Ontario taxpayers
- OPG's ability to mitigate transactional and operational risks is strong



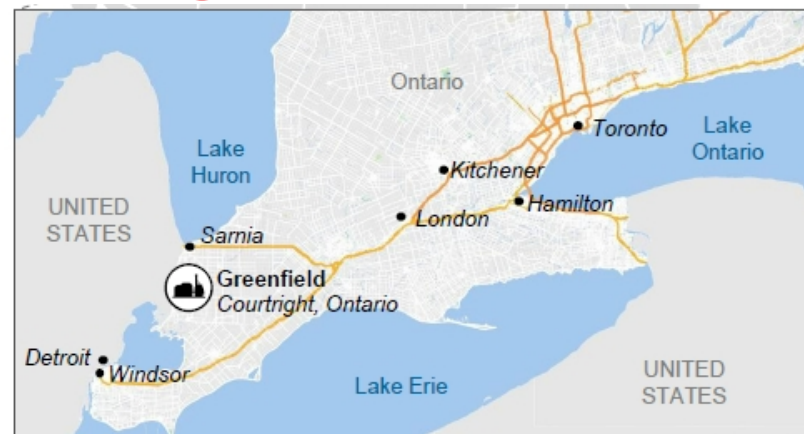
# Active Acquisition Opportunity: Greenfield Energy Centre

## Facility Overview

|                            |                                       |
|----------------------------|---------------------------------------|
| Capacity                   | 1,005 MW                              |
| Commercial Operations Date | October 16, 2008                      |
| Ownership                  | Mitsui (50%) / Calpine (50%)          |
| Fuel Type / Technology     | Natural Gas / CCGT                    |
| O&M Management             | EthosEnergy                           |
| Energy Management          | Emera Energy                          |
| Long-Term Service Provider | Siemens                               |
| Plant Employees            | 27 full-time employees (19 PWU union) |

## Financial Return Expectations

|                      | Greenfield Energy Centre | OPG (2016) | % Increase |
|----------------------|--------------------------|------------|------------|
| Return on Equity     | 11.1%                    | 4.2%       | N/A        |
| EBITDA (full yr)     | \$84M                    | \$1,998M   | 4.2%       |
| Net Income (full yr) | \$42M                    | \$453M     | 9.3%       |



## Opportunity Overview

- Rare opportunity to own 100% of a combined-cycle natural gas-fired plant in Ontario
- Long operating track record with experienced third-party operator
- CES Contract with IESO has a remaining term of ~11 years
- Long remaining useful life of 30+ years; the need for natural gas capacity is expected to continue due to nuclear refurbishment, increasing demand and the need to support renewable generation
- Upside available for OPG to capitalize on post-contract market reform uncertainty

## Financial Highlights

- Valuation range of \$750-\$850M with projected returns adding meaningfully to OPG's financial profile and exceeding those achieved by OPG's current operations



# Active Acquisition Opportunities: TransCanada Solar Portfolio

## Facility Overview

|                               |                                                 |
|-------------------------------|-------------------------------------------------|
| Capacity                      | 76 MW                                           |
| Locations                     | 8 locations in Eastern and Northeastern Ontario |
| Commercial Operations Date    | November 2012 to October 2014                   |
| Contract Term Remaining       | 16.3 years (average)                            |
| Weighted Average Energy Price | \$443/MWh                                       |
| Financing                     | Unlevered                                       |

## Financial Return Expectations

|                        | TransCanada Solar | OPG (2016) | % Increase |
|------------------------|-------------------|------------|------------|
| Return on Equity       | 8.8%              | 4.2%       | N/A        |
| EBITDA (Full year)     | \$51M             | \$1,998M   | 2.6%       |
| Net Income (Full year) | \$15M             | \$453M     | 3.3%       |



## Financial Highlights

- Valuation range of \$500-\$600M with projected returns adding meaningfully to OPG's financial profile and exceeding those achieved by OPG's current operations
- Upside available for OPG to capitalize on post-contract market reform uncertainty



# Financing the Acquisitions

- Aggregate value of \$1,250M - \$1,450M can be financed with a combination of project level debt and equity
  - Solid PPA terms support up to 75% project level debt
  - Residual equity to be balance sheet financed
- Acquisitions will not negatively impact OPG's credit rating
  - FFO-to-debt ratio for acquisitions well above the minimum requirement
- Acquisitions provide accretive returns and an immediate positive impact to EBITDA and net income
  - OPG is targeting a blended after-tax equity IRR above 10%



# Financial Benefits to the Shareholder

- Acquisition of the assets by OPG will reduce borrowing requirements under the Fair Hydro Plan (FHP)
  - Incremental cash flows of approximately \$370 million to the Shareholder over the 10 year borrowing period
  - Shareholder benefits from tax payments that would otherwise go to the federal government
- Opportunity exists to restructure the TransCanada Solar PPAs over the full 35 year asset life
  - Results in immediate reduction of contract price by over 20%
  - Savings to the IESO of over \$110 million during the first 10 years could be used to offset FHP borrowings
- Restructuring of Greenfield IESO contract can lock in a 40 year asset life
  - Provides alternative mechanism to current capacity market path for ensuring resource adequacy
  - Contract extension at a 10% discount to current rates still allows OPG to earn a reasonable return



# RGPM Integration

## Map of OPG Generation Stations

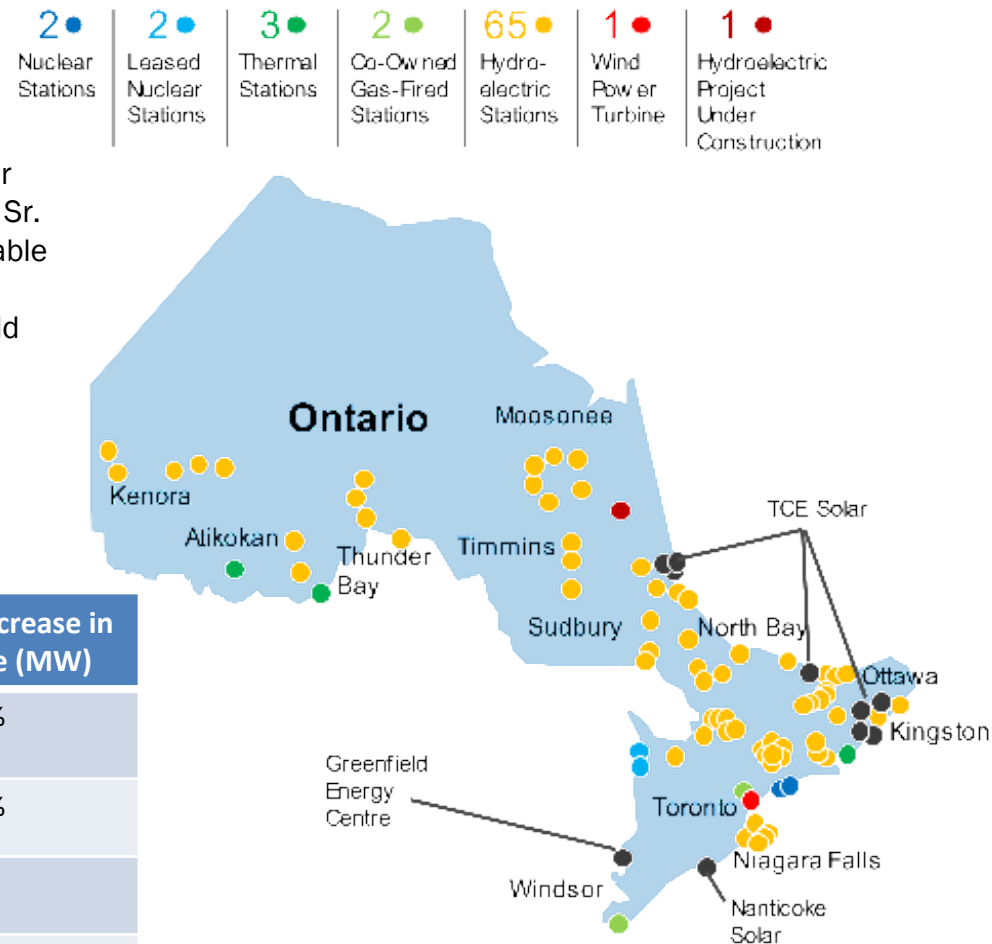
### Integration

- Technology and geography allows for a straightforward integration into OPG's RGPM business unit
- With major organic growth projects such as Lower Mattagami (\$2.6B, 440 MW) & Peter Sutherland Sr. (\$300M, 28 MW) complete, RGPM has considerable established organizational capacity to effectively integrate potential acquisitions such as Greenfield and TransCanada Solar

### Scale Benefits

- Both proposed acquisitions contribute toward achieving meaningful scale in each generation technology

| OPG Generation         | Actual    | Proposed Acquisition | Total     | % Increase in Scale (MW) |
|------------------------|-----------|----------------------|-----------|--------------------------|
| Combined Cycle Gas     | 565 MW    | 1,005 MW             | 1,570 MW  | 178%                     |
| Solar                  | 44 MW     | 76 MW                | 120 MW    | 173%                     |
| All OPG                | 16,205 MW | 1,081 MW             | 17,286 MW | 6.7%                     |
| All OPG Post-Pickering | 13,890 MW | 1,081 MW             | 14,971 MW | 7.8%                     |





# Risk Mitigation

| Organizational Focus                                                                                                                                                                                                                                                                                                                                                                                                         | Brand Management – GHG Emissions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Acquisitions Process: Managed centrally through Corporate Business Development and Strategy</li> <li>• Financing: Managed by OPG Treasury (a separate group is being established to operate the Fair Hydro Trust)</li> <li>• Operations: Integrated by RGPM</li> </ul>                                                                                                              | <ul style="list-style-type: none"> <li>• GHG-free electricity production is not impacted in the near term and manageable in the longer term               <ul style="list-style-type: none"> <li>• For 2018 and 2019, OPG's proportion of GHG-free electricity production will reduce from ~99% to ~98%</li> <li>• Post 2025, following Pickering closure and completion of Darlington Refurbishment , OPG's proportion of GHG-free electricity production will reduce from ~95% to ~90%</li> </ul> </li> </ul> |
| Future Shareholder Actions                                                                                                                                                                                                                                                                                                                                                                                                   | Brand Management – Electricity Price                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <ul style="list-style-type: none"> <li>• Action to re-price solar contract to market would not, on its own, impair OPG's credit rating</li> <li>• However, the Shareholder must be made aware that such an action would signal an unfavourable precedent for government intervention in OPG's business that would likely impair OPG's credit rating and curtail its ability to participate in the Fair Hydro Plan</li> </ul> | <ul style="list-style-type: none"> <li>• Notwithstanding the high PPA value of \$443/MWh for the TC Solar contract, OPG's position as a low cost generator will not be discernibly impacted by these potential acquisitions               <ul style="list-style-type: none"> <li>• Proposed acquisitions increase OPG's overall average price of generation increases by only approximately 0.1cents/kWh</li> </ul> </li> </ul>                                                                                 |



## Timing of Transactions

- Sellers for both acquisition opportunities have stated their intention to close the transactions by December 2017. Binding bids need to be submitted by mid to late September to facilitate this.
- Due diligence work is underway. External resource commitments and spending have begun for independent engineering reviews, site visits, investment banker valuation and financial modelling etc.
- Board approvals will be required in early to mid September to support commitments to binding bids.