Confidential

August 11 meeting of OPG with Premier's Advisor, Energy, MOF and TBS

Key meeting notes

Senior attendees were Alan Hibben, accompanied by OPG CEO Jeff Lyash and CFO Ken Hartwick, Ed Clark, Serge Imbrogno, Scott Thompson, Gadi Mayman, Ronald Kwan ,Cindy Veinot, and Andrew Teliszewsky, Chief of Staff for Minister Thibeault.

Energy MO noted that this is aiming for a series of 4 corners in the Fall.

Hibben spoke to how the proposal for an independent borrowing platform for OPG is located within a broader strategy to achieve a more efficient, competitive company, and the role that OPG market borrowing could play in adding to the pressure of market discipline to achieve that outcome.

Clark noted the progress on two issues, one being how to ensure OPG Board vacancies are filled with qualified candidates and the other being the path forward on compensation. He noted that he is looking to TBS (when the DM returns) to speak to whether the proposed changes are consistent with the new regulations, and is looking for this to move forward for decision (not sure whether a policy submission or one to Treasury/Management Board as well) in September.

Hibben's first point was that transforming OPG's capital structure to be much less equity and much more debt would create clarity for management (as the shareholder/province can give dividend requirements to OPG) and a better image at the OEB. Clark had him clarify that this was more about appearance, than about fundamental incentives, if the only change were to transform existing equity into debt borrowed from the province. There was debate as to whether this would add any transparency, including because Energy pointed out that all shareholder direction to OPG is published on their website.

The discussion around an independent borrowing platform centred on financial impact and risk transfer. Hibben and OPG made a case that if OPG borrowed externally this would mean less gross debt than otherwise, could transfer risk from the province to market investors and would provide OPG lower cost and better matched lending. The OFA made the case that net debt would not change so debt ratios would not be improved over base case (OFA said all rating agencies care about net debt; Hibben and OPG claimed gross debt is the focus for Moody's and S&P), risk is not transferred to investors and shows up in cost of borrowing, as the market looks to an implicit guarantee by the province for an entity like OPG, and the rate spread now collected for the Province by the OFA (about $25-30m annually) would go instead to market debtholders.

Discussion was mixed on the possible benefit of OPG issuing in its own name in US markets from the point of view of whether it would be persuasive to convince the Auditor General not to require financial reporting on an IFRS basis in the consolidated statements of the Province. Veinot expressed strong doubt on that point, and Hibben agreed that it might be mildly helpful at most, but did not argue it as a strong positive. On impact on rate payers, Imbrogno noted he doubted OEB would alter rate decisions purely on a change of accounting basis (e.g. US GAAP to IFRS), but also noted, that the impact to the OEB of having external debt holders may be to increase rates, as the OEB may consider the return to external debtholders differently than the return to the Province

Clark indicated an intention to discuss with Secretary of Cabinet and that he would get back to Hibben and OPG in the next few weeks.

Office of the Provincial Controller Division