

Implications of moratorium

From: JORDA Jenny -FIN & C CTRL <jenny.jorda@opg.com>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Cc: MAUTI John -FIN & C CTRL <john.mauti@opg.com>
Date: Tue, 04 Jul 2017 13:40:22 -0400

Hi Cindy,

Further to our meeting last week at the EY Tower on the implications of the moratorium and IESO accounting, please find below a table which compares the credit metrics between OPG Business Plan (BP), BP with FHP and "BP with FHP & Moratorium accounting". The primary metric which will drive the Credit analysis is the FFO/Total Debt ratio. As noted below in yellow this metric is breached in 3 of the 4 years if the IESO accounting under the moratorium as currently contemplated moves forward. This will have negative credit rating implications resulting in a likely downgrade. Further, there will be additional accounting risk that E&Y would have concerns about the "commercial" aspects of us entering into a transaction which will result in a credit downgrade thus jeopardizing OPG's ability to consolidate the trust. Further, when the Trust is consolidated with OPG, OPG would have losses from the FHP Trust for the entire moratorium period since there is no interest revenue to offset the interest expense that the Trust incurs.

Financial Metrics					
		2018	2019	2020	2021
BP (November Board) (No FHP)	ROE	6.0	6.1	6.9	7.3
	FFO/Total Debt (*Minimum 9%)	10.8%	10.5%	15.9%	13.2%
	Debt/EBITDA (*Maximum 5.5)	6.6	6.6	4.9	5.7
BP (November Board) (with FHP)	ROE	5.7	5.5	6.0	6.0
	FFO/Total Debt (*Minimum 9%)	9.3%	8.2%	11.0%	9.1%
	Debt/EBITDA (*Maximum 5.5)	7.5	7.9	6.5	7.6
BP (November Board) (with FHP & Moratorium Accounting)	ROE	5.2	4.4	4.2	3.9
	FFO/Total Debt (*Minimum 9%)	8.8%	7.1%	9.3%	6.8%
	Debt/EBITDA (*Maximum 5.5)	7.9	9.0	7.6	9.9

* Threshold of key financial ratios to maintain OPG's current credit ratings

Let me know if you have any further questions.

Jenny Q Jorda, CPA, CA | Senior Manager, Accounting Policy and Controls | **Ontario Power Generation**
700 University Avenue, Toronto ON M5G 1X6 | Phone: (416) 592-2531 | Fax: (416) 592-7758 | E-mail:
jenny.jorda@opg.com

THIS MESSAGE IS ONLY INTENDED FOR THE USE OF THE INTENDED RECIPIENT(S) AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, PROPRIETARY AND/OR CONFIDENTIAL. If you are not the intended recipient, you are hereby notified that any review, retransmission, dissemination, distribution, copying, conversion to hard copy or other use of this communication is strictly prohibited. If you are not the intended recipient and have received this message in error, please notify me by return e-mail and delete this message from your system. Ontario Power Generation Inc.