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

February 2017

D Ontario’s Fair Hydro Plan – Context

- Ontario’s Fair Hydro Plan (OFHP) was introduced to provide rate relief to residential consumers, farms, most small businesses, long-term care homes and condominiums.

- 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 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.

D Ontario’s Fair Hydro Plan – Context (cont’d)

- 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% HST rebate.

- 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.

DRAFT

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 hundreds of millions in project financing over the past several 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 $20 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.

DRAFT

OPG’s 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 OPG’s Fair Hydro Trust was established on Dec 20, 2017

- Rating agencies have assigned ratings of:
    - Senior Debt: xxx Moody’s, yyy DBRS;
    - Subordinated Debt: xxx Moody’s yyy DBRS; and [NTD: do we need to include for sub debt?]
    - Junior Subordinated Debt: xxx Moody’s yyy DBRS [NTD: do we need to include for sub debt?].

DRAFT

OPG’s Fair Hydro Trust – Financing to Date

- By mid-December, $1.2 billion in GA payments have been deferred under OFHP and held by IESO.
- OPG’s Fair Hydro Trust purchased this asset in December 2017, and the purchase was financed as follows:
  - Borrowing by the Trust through a bank syndicate in December, which was refinanced in February by senior debt from capital markets [$610 million] (51%);
  - Equity injection by the Province [$530 million] (44%) invested as subordinated debt in the Trust; and
  - OPG subordinated debt in the Trust [$60 million] (5%) already raised through the initial borrowing.
- [NTD: Placeholder about success/level of interest in the offering]
- For comparison purposes, OPG’s debt financing in October 2017 was priced at 3.32%

DRAFT

Debt Offering Summary

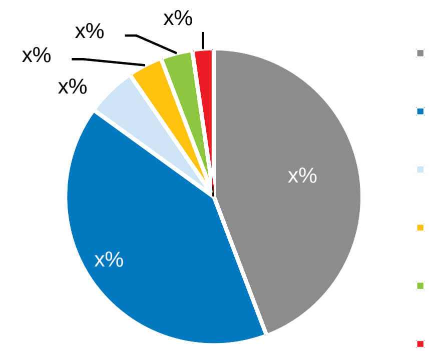
[NTD: Do we need this slide or is it just too c

TERMS SUMMARY

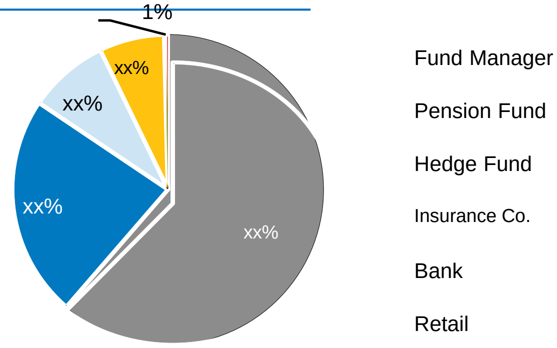
Issuer	Fair Hydro Trust .
Pricing Date	xx-Feb-18
Settlement Date	xx-Feb-18
Ratings (DBRS/Moodys)	xxx
Amount	$xxx million
Coupon	x.xx%
Coupon Dates	xxx and xxx
Maturity Date	x-xxx-xx
Spread vs. Benchmark	+xx bps (credit: +xx bps, curve: +xx bps)
GoC Curve	GoC x.xx% due xx, xxxx GoC x.xx% due xx, xxxx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

1. Co-Lead Agent & Bookrunner.

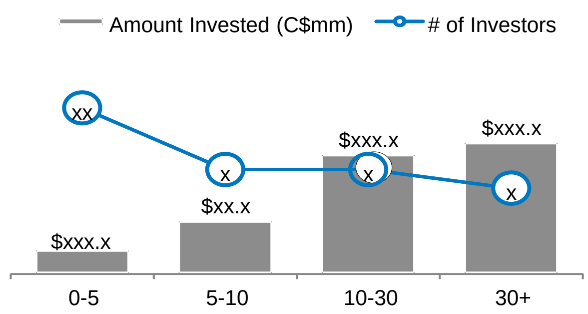
INVESTOR LOCATION



INVESTOR TYPE



ALLOCATION HISTOGRAM[(1)]



DRAFT

OPG's Fair Hydro Trust – Financing Moving Forward

- In subsequent months it is expected that OPG's Fair Hydro Trust will purchase subsequent assets from IESO (i.e., approximately $200 million per month) and raise any required financing
- A second round of borrowing will take place in [Q2 – 2018] to provide the long term financing for the Trust
- The Trust will continue to borrow funds through the debt markets a few times each year to purchase assets from the IESO

DRAFT

Reporting Requirements

- Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, 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
- The Trust's financial results will also be reported directly to the Province as OPG's shareholder.

Questions?