



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

February 2016



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Ontario's Fair Hydro Plan – Context

- Ontario's Fair Hydro Plan (OFHP) is providing rate relief to all residential consumers, and as many as half a million farms and small businesses.
- 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 generation and supply 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.
- 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 GA refinancing incorporated into the Ontario Energy Board (OEB) 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 came into effect on July 1, 2017, including the 8% rebate equivalent to the provincial portion of the HST introduced in January 2017.
- OPG has been working with the government, the Independent Electricity System Operator (IESO), the OEB, and legal, financial and energy sector third-party experts on the implementation of OFHP.

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Role of Ontario Power Generation (OPG)

- OFHP 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 more than \$2B in multiple project financing initiatives over the past number of 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 \$22 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.

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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 Fair Hydro Trust was established on December 20, 2017.
- OPG and expert advisors have been in discussions with rating agencies regarding the debt offering.
- Rating agencies have assigned provisional ratings of Aa2 (Moody's) and AAA (DBRS) to the Fair Hydro Trust senior debt.

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Fair Hydro Trust – Financing Trust

- By mid-December, \$1.2 billion in GA payments had been deferred under OFHP and held by IESO as a regulatory asset.
- Fair Hydro Trust purchased this asset in December 2017, and the purchase was financed as follows:
 - Short-term borrowing by the Trust through an asset-backed bank syndicate in December (51%), \$500 million of which was refinanced in February 2018 by senior debt raised through an initial offering in the capital markets;
 - Remainder was financed by OPG.

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Fair Hydro Trust – Initial Debt Offering

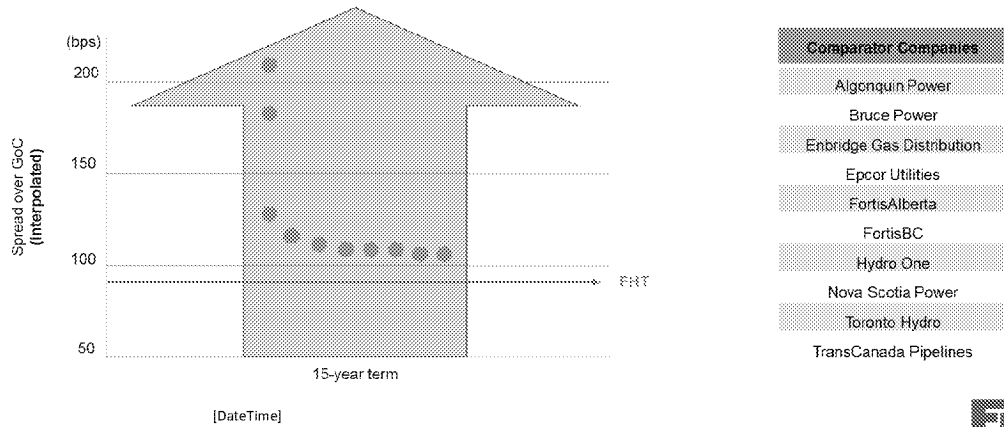
- Investor roadshows were held in Montreal, Toronto, Winnipeg and Vancouver during the week of January 29, 2018.
- Strong investor appetite resulted in an interest rate of 3.357%, the lowest cost financing in the Canadian energy sector.
- Investors include two green funds, reflecting the role the program plays in financing green energy projects.

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Fair Hydro Trust – Comparison to Energy Sector

- FHT will finance the OFHP more cost efficiently than other utilities and energy companies. The following diagram provides an indicative financing cost for each company, represented as a basis point (bps) spread over the Government of Canada curve (GoC). FHT has the lowest relative cost.



Fair Hydro Trust – Deal Overview

\$500 Million 3.357% Senior Notes due May 15, 2033 Series 2018-1

Description

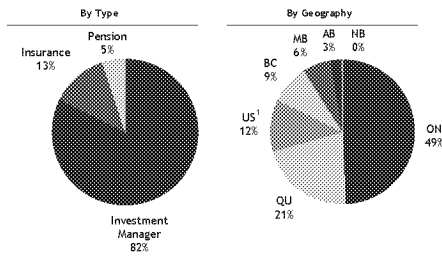


- Fair Hydro Trust, a special purpose trust established under the laws of the Province of Ontario, and caused to be established by Ontario Power Generation Inc., as Financial Services Manager, created a program providing for the offering and issuance of senior notes
- Fair Hydro Trust was established in connection with the Ontario Fair Hydro Plan Act, 2017; the Province of Ontario announced its Fair Hydro Plan on March 2, 2017, which proposed to lower the average electricity bill for eligible customers by 25%

Transaction Description

Issuer:	Fair Hydro Trust
Pricing Date:	06-Feb-18
Settlement Date:	09-Feb-18
Ratings:	DBRS: AAA(sf) Moody's: Aa2(sf)
Amount:	\$500,000,000
Coupon:	3.357%
Coupon Dates:	May 15 and November 15
Expected Maturity Date:	May 15, 2033
Principal Payment Default Date:	May 15, 2035
Spread vs. Benchmark:	91.9 bps
GoC Curve:	CAH 5.75% due June 1, 2029 CAH 5.75% due June 1, 2033
GoC Benchmark:	CAH 5.75% due June 1, 2033
Benchmark Price / Yield:	\$142.10 / 2.438%
Price:	\$100.003
Yield:	3.357%
Syndicate:	CIBC World Markets Inc. (joint lead and joint bookrunner) RBC Dominion Securities Inc. (joint lead and joint bookrunner) Goldman Sachs Canada Inc. (joint lead) BMO Nesbitt Burns Inc. Morgan Stanley Canada Limited National Bank Financial Inc. Scotia Capital Inc. TD Securities Inc. HSBC Securities (Canada) Inc. Desjardins Securities Inc. Laurentian Bank Securities Inc. Cazgrain & Company Limited.

Investor Breakdown



Fair Hydro Trust – Financing Moving Forward

- In subsequent months, it is expected the Fair Hydro Trust will continue to purchase assets from the IESO and raise any required financing.
- It is anticipated that a second round of long-term financing will take place in Q2 2018 to refinance interim short term borrowings for the Trust.
- The Trust will continue to borrow longer term funds through the debt capital markets 2-3 times per year to finance the asset purchases from the IESO.

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Reporting Transparency

- Due to its ownership of the Fair Hydro Trust's subordinated debt and control over its key activities, 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.



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