ONTARIO POWER GENERATION

AGENDA
SPECIAL COMMITTEE
Friday, March 17, 2017
7:00 a.m. – 8:00 a.m.
Conference Room #2, 19th Floor
700 University Avenue, Toronto

Conference Call number:
Toll Free: 1-888-402-9166
GTA: 416-933-8665
Conference ID: 9203771#

CONSTITUTION OF MEETING — *7:00 a.m.*

1. **Constitution of Meeting** — George Lewis

   a) Approval of Agenda
   b) Declaration of Conflicts of Interest

2. **Minutes of Meeting/Actions Arising from the Minutes** — George Lewis

ITEMS FOR INFORMATION

3. **GA Debt Accumulation and Rating Requirements to Support Financing** — Carlo Crozzoli, John Lee

4. **Special Committee Governance Obligations** — Chris Ginther

5. **Update from Ministry Rate Mitigation Working Group Meeting – March 15th** — Ken Hartwick

6. **Next Steps** — George Lewis

7. **Next Meeting – March 24th**

   Tentative Agenda
   - *Preliminary SPV Capitalization Structure – J. Lee*
   - *Communications Strategy and Issues – J. Rowe*
   - *Business Case for OPG – C. Crozzoli*
   - *Update from Ministry Rate Mitigation Working Group Meeting – March 23 – K. Hartwick*
   - *Next Steps*

TERMINATION OF MEETING — *8:00 a.m.*

DATE	FUTURE MEETINGS AND AGENDA TOPICS
March 31	• *Overview of Legislation* • *Financial advisor/banker presentation* • *Corporate Structures* • *Update from Ministry Rate Mitigation Working Group Meeting – March 30* • *Next Steps*
April 7th	*TBD*
April 12th or 17 (tbc)	• *Ernst & Young (re: confirmation of accounting treatment)*
April 21	*TBD*

Item No. 1

<u>Constitution of Meeting</u>

a) Approval of Agenda
b) Declaration of Conflicts of Interest

Ontario Power Generation

SPECIAL COMMITTEE OF THE BOARD

Minutes of a meeting of the Special Committee of the Board of Directors of Ontario Power Generation held in Conference Room #2 at the Head Office of the Company, 700 University Avenue, Toronto on Friday, March 10, 2017, at 11:45 a.m.

Present	
George Lewis	Committee Chair (by phone)
Bernard Lord	Member and OPG Board Chair
Bill Coley	Member
Lisa DeMarco	Member
Peggy Mulligan	Member
Yezdi Pavri	Member

being a quorum of the Directors of the Committee, and

Jeff Lyash	President and CEO
Ken Hartwick	Chief Financial Officer and SVP - Finance
Chris Ginther	Chief Administrative Officer
Carlo Crozzoli	SVP Corporate Business Development & Strategy
John Lee	Vice President, Treasurer
Catriona King	Vice President Corporate Secretary
Carlton Mathias	Assistant Corporate Secretary

1. Constitution of Meeting

Notice of the meeting having been given to all of the Directors of the Committee and a quorum of the members being present, the Committee Chair declared the meeting regularly constituted for the transaction of business at 11:45 a.m. on March 10, 2017.

- Agenda: the agenda for March 10, 2017 was approved.
- Declaration of Conflicts of Interest: the Committee Chair requested any declarations of conflict of interest and there were none.

2. Review of Committee Mandate

Mr. Lewis noted several aspects of the Committee's mandate including that it is to assess the financing and operational plan of the SPV and report and make recommendations to the Board with respect to OPG's participation in the Province's implementation of the refinancing plan.

3. Global Adjustment Components 2016

Mr. Crozzoli spoke to the material sent to the Committee regarding the components that contributed to the global adjustment in 2016. In response to a question he noted that the information was prepared by and made public by the IESO for the first time approximately one week ago.

Discussion followed on what the total electricity costs for the Province are, what constitutes OPG's contribution to the GA, and forecasts of the GA going forward.

4. GA Re-financing Workplan

Mr. Lee noted that the content of the board memo sent to the Committee on the work plan for establishing a vehicle to finance the Global Adjustment (GA) was also shared with the participants in the Ministry of Energy's working group on March 9, 2017 and that it was clear around the table that OPG's consideration of the elements to implement the Province's refinancing is the most developed.

Mr. Lee spoke to the key points of several of the 12 major components of the workplan set out in the memo. Questions and discussion ensued on a range of topics including the equity injection process of the refinancing plan, and preliminary consideration is being given to retaining RBC and/or CIBC to assist in advising on the long term debt issuance issues, while Goldman Sachs may be considered in this regard with respect to the US market.

The Committee asked for the following information:
- whether OPG's proposed management of the the financing SPV creates any issues for OPG under the Affiliates Relationship Code (*)
- A report back on how OPG's proposed participation will include the entitlement of OPG to repay the equity to the Province upon the eventual wind-up of the SPV.(*), and
- a baseline forecast of the GA for the period of the proposed refinancing of it. (*)

5. GA Cash Flows

Mr. Lee drew the Committee's attention to the information provided the committee on the current and proposed cash flows for the Global Adjustment.

6. Report from Ministry Working Group Meeting of March 8, 2017

Mr. Hartwick advised that:
- the meeting of March 8th was the kick-off meeting for the working group.
- The group will meet weekly on Thursday mornings.
- Sub-committees of the working group are also being formed to do more detailed work and OPG will participate in these also.

7. Consideration of Advisors to Committee

Mr. Lewis noted that the mandate of the Committee includes the discretion to obtain external advisors. Discussion followed.

The Committee requested the following information:
- a brief discussion paper on consideration of potential advisors to the Committee including potential advisors if OPG's participation in the Province's re-financing plan raises added liability issues for the OPG board of directors.(*)

- given that there will be legislation involving OPG and refinancing a part of the GA, what things about OPG's business are appropriate to fix or improve at this time.(*)

8. Next Steps/Next Meeting

It was determined that this Committee will meet weekly on Fridays at 7 a.m.

The meeting terminated at 12:45 p.m.

Committee Chair Vice President Corporate Secretary

Asterisk (*) denotes action to be taken

SPECIAL COMMITTEE
ACTIONS ARISING FROM THE MINUTES
[Current as of March 14, 2017]

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
March 10, 2017	**Affiliate Relationships Code** Advise whether OPG's proposed management of the the financing SPV creates any issues for OPG under the Affiliates Relationship Code.	C. Ginther	
March 10, 2017	**Green Bonds** Advise whether if as part of the funding of the SPV there is any opportunity to have green bonds constitute part of the mix.	J. Lee	Under review. Will provide update to Committee March 24.
March 10, 2017	**Repayment of Equity** It was requested that management report back on how OPG's proposed participation will include the entitlement of OPG to repay the equity to the Province upon the eventual wind-up of the SPV.	J. Lee	Under discussion with OFA. Will provide update to Committee March 24.
March 10, 2017	**Baseline Forecast of the Debt Accumulation** It was requested that management prepare a baseline forecast of the Debt Accumulation and Residential Bill Forecast.	C. Crozzoli	Agenda item for March 17
March 10, 2017	**Potential Advisors to the Committee** There was a request for information about whether OPG's proposed participation in the refinancing of the GA raise any added liability issues for the OPG board of directors	C. Ginther	

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
March 10, 2017	**Potential Improvements to OPG's Business** Given the opportunity for enabling legislation from the Province, as well as negotiation with the IESO, the Committee requested management to consider other aspects of OPG's business/operations which could be enhanced and negotiated as part of this process, in order to strengthen the overall business case. (In addition to maximizing the value/mitigating the risk from OPG's investment in the SPV).	K. Hartwick C. Crozzoli	Response will be provided at the March 24 Special Committee meeting.
March 10, 2017	**Communications Issues and Strategy** How is OPG planning to approach the communications issues involved in OPG's participation in the Province's plan	J. Rowe	
March 14, 2017	**Financial Analysis of the Economic Stand-Alone Return to OPG** Provide a financial analysis of the economic "stand-alone" return to OPG (ie IRR/ROE) and the impact over time on our consolidated financial ratios and performance measures	C. Crozzoli	Response will be provided at March 24 meeting as part of the Business Case.

March 17, 2017

ONTARIO'S FAIR HYDRO PLAN

REASON FOR REPORT

This submission is to provide the Special Committee an overview of the following items:
1. Projected debt accumulation profile under the Province's Fair Hydro Plan.
2. Rating Requirements to Support Financing

CONCLUSIONS

1) Projected debt accumulation profile
   a) Under the Province's plan, debt increases to approximately $28B in 2027 and is repaid over the following 20 years to 2047.
   b) Residential electricity bills are projected as follows:
      - Bills will be reduced in June 2017 by an average of 25% (including the provincial portion of HST)
      - For the following 4 years, bills will increase at the rate of inflation
      - Beyond 2021, residential bill increases will be limited to 6.5% per year
      - The repayment charge will form approximately 13% of the total customer bill by the late 2027 and reduce to 10% by 2047

2) Rating Requirements to Support Financing
   a) Need for strong legal and structural elements as reflected in legislation, financing order and government pledge (or some form of legislative protection), and mandatory uncapped true-up mechanism
   b) US investors are familiar with the cost recovery bond structure used by US utilities as it is fairly consistent across the states that have implemented this approach

HIGHLIGHTS

Further details are provided in:

Appendix 1 – Debt Accumulation and Residential Bill Forecast

Appendix 2 – Moody's Rating Methodology Executive Summary
– Credit Rating Assessments Summary of Duke Energy and Long Island Power

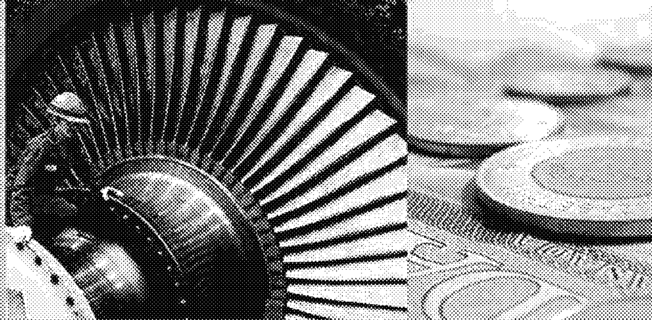
Submitted by:

"Original signed by:"

Ken Hartwick
Chief Financial Officer & Senior Vice President – Finance

APPENDICES

1. Debt Accumulation and Residential Bill Forecast
2 Moody's Rating Methodology Executive Summary
  Credit Rating Assessments Summary of Duke Energy and Long Island Power



A TRUSTED BUSINESS PARTNER DRIVING VALUE

Fair Hydro Plan – Debt Accumulation and Residential Bill Forecast

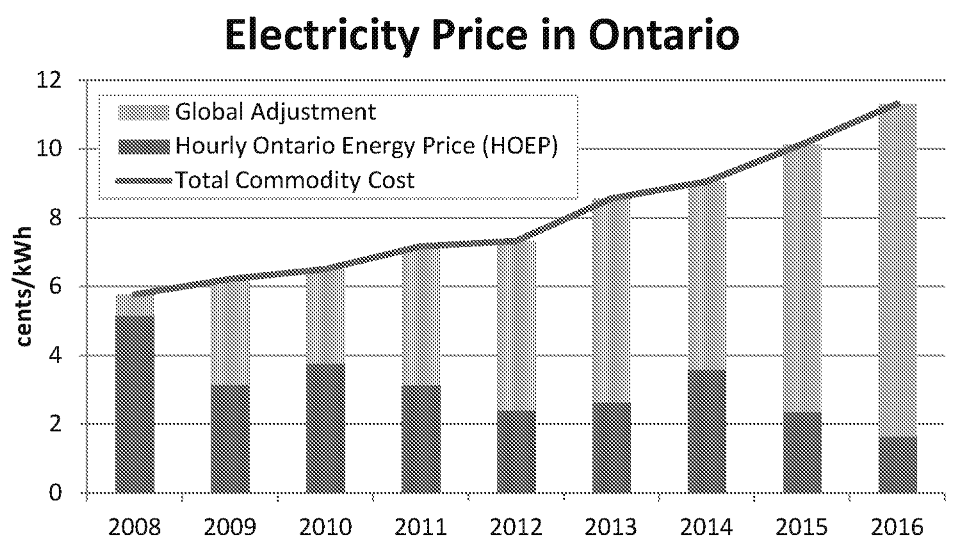
March 17, 2017

Confidential

ONTARIO POWER GENERATION

Global Adjustment

- Nearly all generation in Ontario is paid a fixed price for electricity:
  - OPG's regulated assets
  - IESO contracted assets
  - Non-Utility Generators contracted by the Ontario Electricity Financing Corporation
- Generators are paid the Hourly Ontario Energy Price (HOEP) through the IESO wholesale market.
- The Global Adjustment (GA) charge was created to make up the difference between the market electricity price (HOEP) and the fixed rates paid to contracted/regulated generators. The cost of conservation programs is also recovered via the GA.
- The total commodity cost paid by customers is equal to HOEP + GA.
- In recent years, the total commodity cost of electricity has been increasing as more contracted generation has been added to the system.
- At the same time, HOEP has been falling with natural gas prices and the oversupply of electricity in Ontario.
- This has led to significant growth in the GA.



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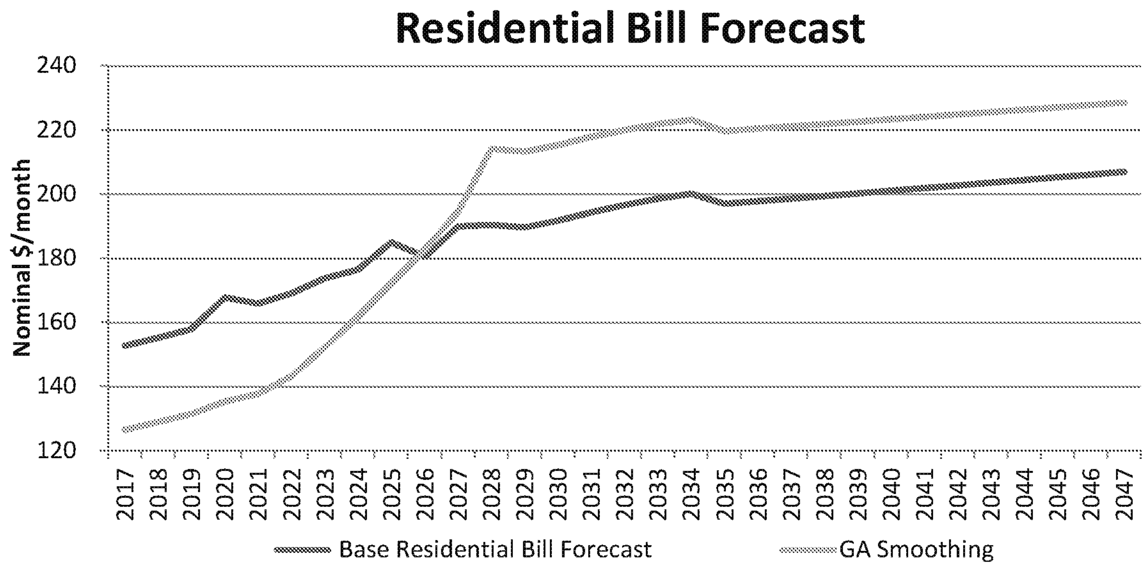
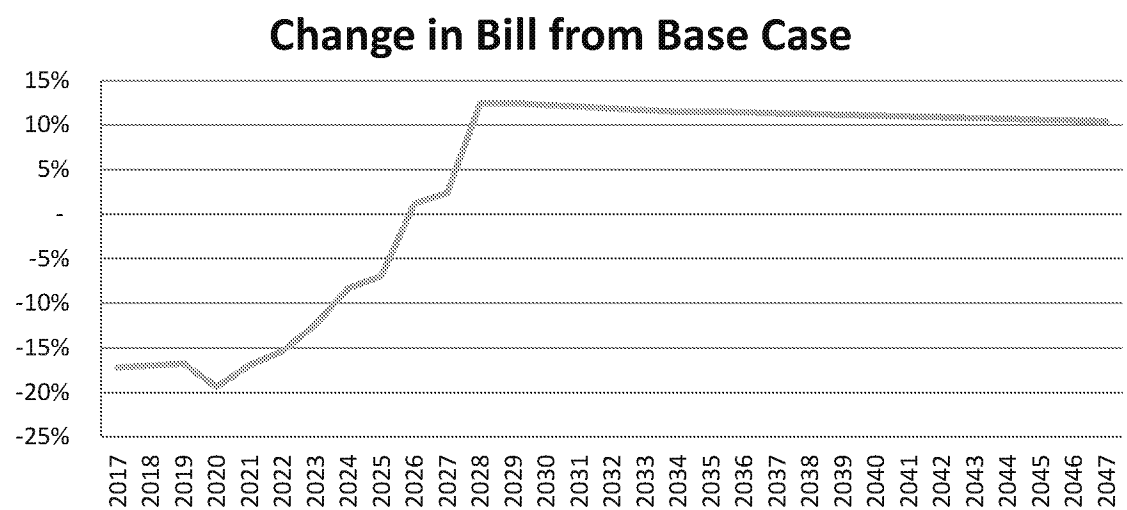
Ministry Proposal – March 2, 2017

- The Ministry of Energy has proposed to smooth the GA over time arguing that generators contracted for 20 years will actually last for 30 years, so the recovery of their investment should occur over a longer period.
- GA smoothing will be achieved by financing part of the GA charge in the near-term with repayment occurring in the long-term.
- Initially, residential electricity bills will decrease by an average of 25% and then increase at the rate of inflation for the next 4 years.
    - GA smoothing will decrease bills by 16%, with other Ministry of Energy initiatives such as rebating the 8% provincial portion of the HST responsible for the remaining reductions.
- Beyond 2021, residential bill increases will be limited to 6.5% per year leading to the repayment charge peaking at 13% of the total bill.





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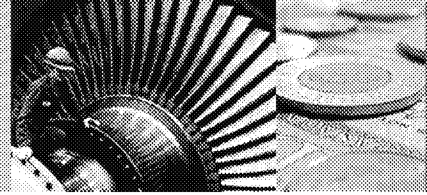
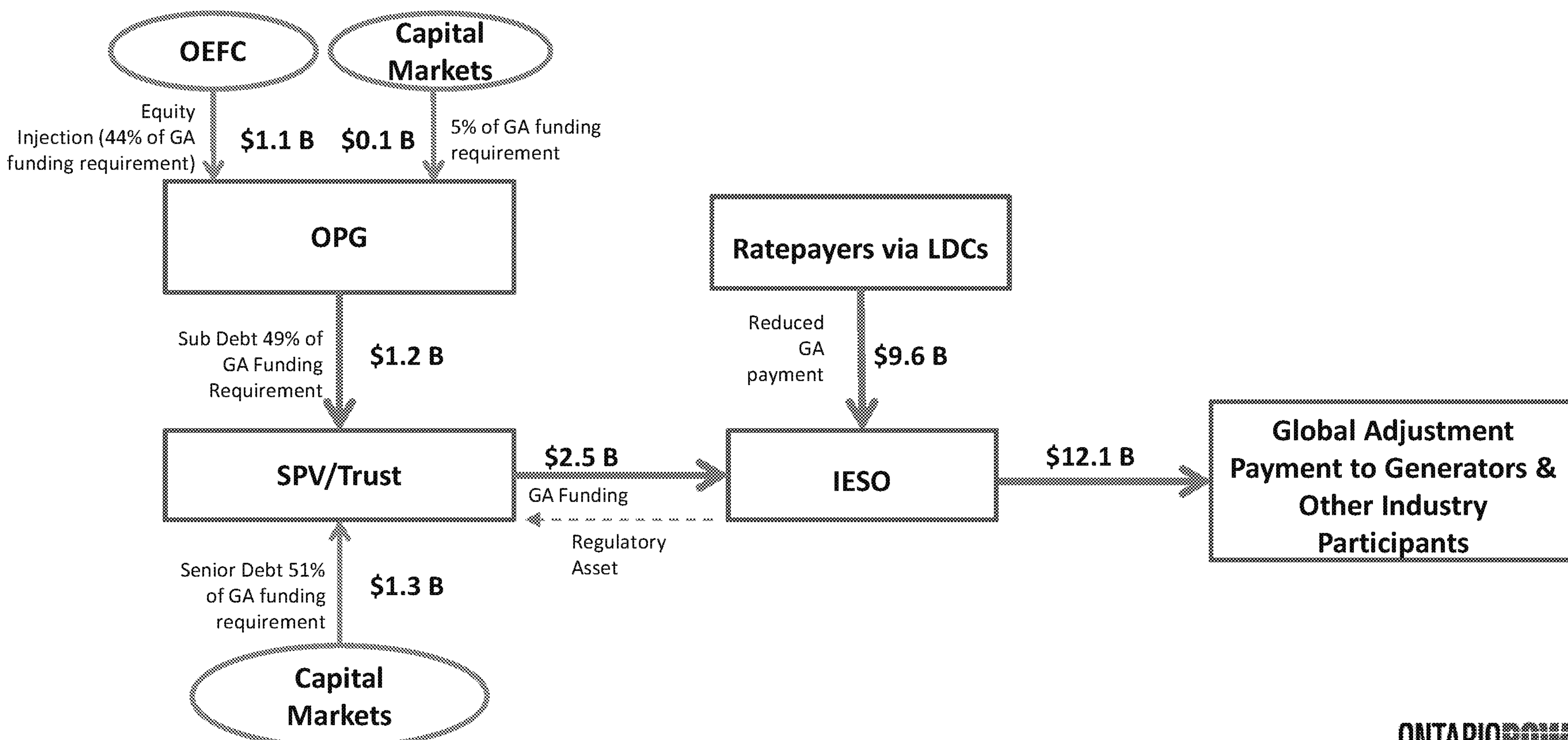


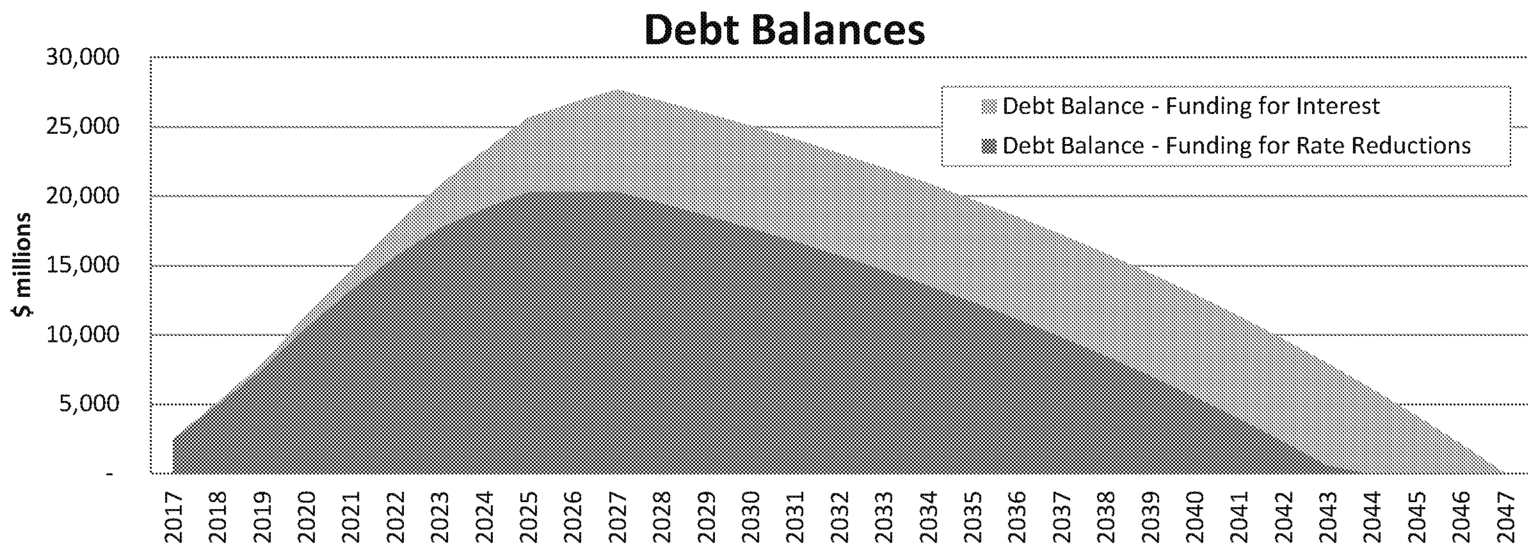
Financing Structure

- To implement the smoothing, a trust will be established by OPG. The Trust will purchase a regulatory asset from the IESO and the IESO will use the proceeds to reduce the Global Adjustment.
- The Trust will finance the purchase of the regulatory asset and receive a right to collect funds from ratepayers over the long-term to repay the financing.

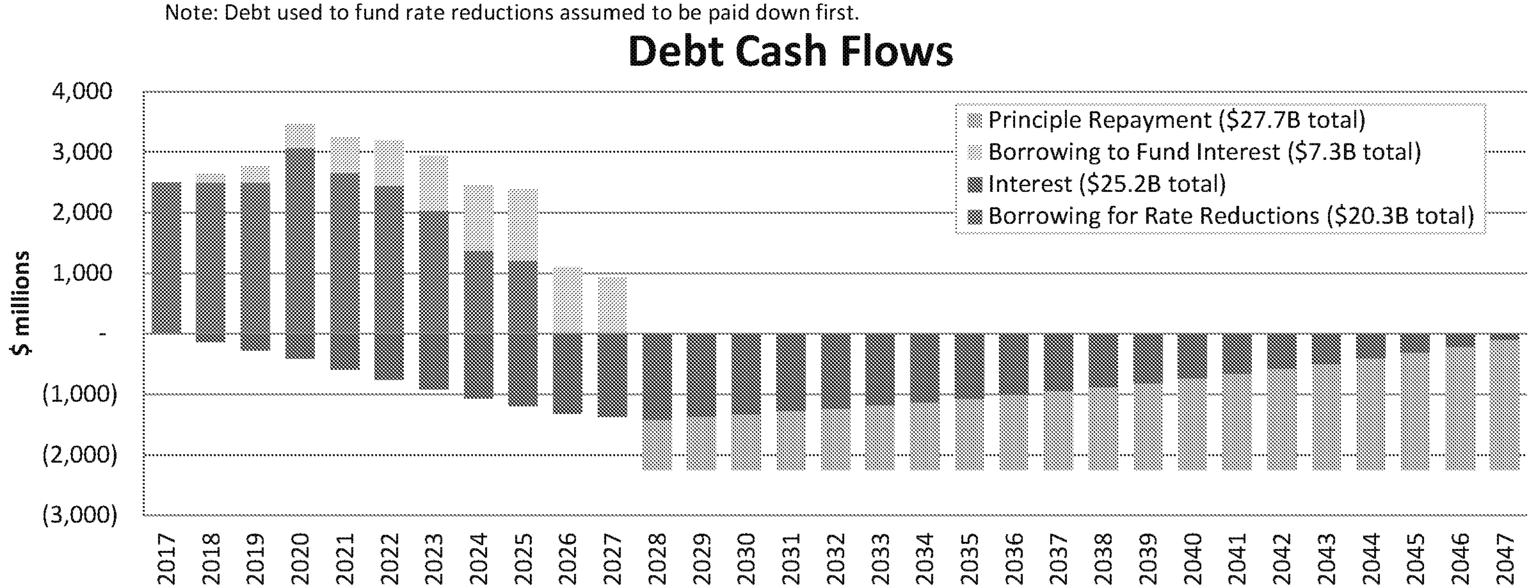
2017 $2.5 B GA Funding



Debt Cash Flows



Note: Debt used to fund rate reductions assumed to be paid down first.



Note: Assumed interest rate in the Ministry's proposal is 5% compounded monthly.

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Agenda Item No. 5

Update from Ministry Rate Mitigation Working Group Meeting – March 15th

Verbal Report