ONTARIO POWER GENERATION

AGENDA
SPECIAL COMMITTEE
Friday, March 24, 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. **Update from Ministry Rate Mitigation Working Group Meeting – March 23rd** — Ken Hartwick

4. **Preliminary SPV Financing Structure / Program** — John Lee

5. **Business Case for OPG** — Carlo Crozzoli

6. **Next Steps** — George Lewis

7. **Next Meeting – March 31st**

   Tentative Agenda
   - *Update from Ministry Rate Mitigation Working Group Meeting – March 30*
   - *Overview of Legislation*
   - *Financial advisor/banker presentation*
   - *Corporate Structures*
   - *Next Steps*

TERMINATION OF MEETING — *8:00 a.m.*

DATE	FUTURE MEETINGS AND AGENDA TOPICS
April 7th	*TBD*
April 13th 2:00 p.m.	• *Ernst & Young (re: confirmation of accounting treatment)* • *Communications Strategy and Issues (tbc)*
April 21	*TBD*

Item No. 1

Constitution of Meeting

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 by teleconference on Friday, March 17, 2017, at 7:00 a.m.

Present	
George Lewis	Committee Chair
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
Carlton Mathias	Assistant Corporate Secretary
Les Wong	Senior Counsel, OPG Law Division

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 7:00 a.m. on March 17, 2017.

- Agenda: the agenda for March 17, 2017 was approved.
- Declaration of Conflicts of Interest: the Committee Chair requested any declarations of conflict of interest and there were none.

2. Minutes of Meeting/Actions Arising from the Minutes

Upon a motion duly made, seconded and unanimously agreed to, it was RESOLVED THAT:

- The minutes and actions arising from the minutes of the March 10, 2017 Special Committee were approved with the following additional actions:
    - That management forecast and assess the likelihood of the IESO renewing its existing supply contracts beyond their typical 20-year terms (*)
    - In OPG's sensitivity analyses informing the Financing Structure, management to examine different electricity demand scenarios and their implications (*)

- In relation to the proposed Financing Structure, management is to ensure that OPG's subordinated debentures issued to the SPV are adequately protected (*)

3. Global Adjustment Debt Accumulation and Rating Requirements to Support Financing

Mr. Crozzoli spoke to the material provided relating to the Debt Accumulation and Residential Bill Forecast. Questions and discussions ensued including on the topics of the interval of interest compounding in the assumed interest rate of the Ministry's proposal illustrated on slide 5 of the slide deck, and embedded assumptions, such as inflation rates, in the debt cash flow forecasts. Mr. Lee advised that the assumed rate in the Ministry's proposal is 5% compounded semi-annully, not monthly, as indicated on slided 5.

Arising out of the discussion, the Committee asked for the following information:

- In respect of the residential bill forecast on slide 5, that a sensitity analysis be done on carbon pricing, electricity demand and potential impacts of IESO contracts being renewed/not renewed (*)
- When management prepares the Business Case for OPG, that in respect of the graph on slide 2 relating to the electricity prices in Ontario, that management overlay OPG's costs per kilowatt hour through the same period (*)

Mr. Lee spoke to the material provided in relation to the rating requirements to support financing. In respect of Moody's assessment of the legislation as described on page 1, Mr. Lee noted that item (1) is important for OPG to track; that item (2) relates to the OEB's involvement, which OPG strongly prefers to limit and that the other numbered items are ones that OPG will work through but aren't notable for the Committees attention. Mr. Lee also advised that with respect to the point noted that Canadian law does not permit legislation to include a government pledge not to impair a utility's right to collect the charges, lenders counsel, the Toronto law firm, Oslers LLP, would need to signoff on suitable alternatives, including a limited guarantee or mechanism to "put" the liabilities of the SPV to the Province in the case of impairment of the ability of the SPV to realize the value of its assets becaue of any acton of the Provinvce (see K. Hartwick update on item 5 below).

Questions from the Committee and discussion ensued including on the US models and the guidance they offer to the Ontario circumstance.

4. Special Committee Governance Obligations

Mr. Ginther spoke to the materials provided noting that the process that the Board and Special Committee is engaging in satisfies the Board's fiduciary duties and duties of oversight. There may be a point in time that the legal assessment, advice and/or recommendations on actions to be taken in the best interests of the company provided by OPG management may differ with actions intended by the Board, also in the best interests of the company, and the Board may need independent legal advice. In this respect, Mr. Ginther has arranged for Mr. Bill Orr of the Fasken Marteneau law firm to be on stand-by to independently advise the Board. Mr. Orr was selected in preference to other high quality candidates on governance matters because of his added superior expertise in complex financial transactions

Questions from the Committee and discussion ensued. Arising from this,

- The minutes of the meetings of the Special Committee, once approved, will be made available for the Board at large to review in the secure board portal (*)
- Mr. Ginther will review the materials provided to the Special Committee in order to prepare an appropriate summary of the notable points for provision to the entire Board. Mr.Ginther

will send a draft of the summary to Mr. Lewis for his review before finalizing the document for broader circulation (*)

5. Report from Ministry Working Group Meeting of March 15, 2017

Mr. Hartwick gave an oral report on the working group meeting, noting that there was a focus on

- The financing aspects and in particular how the Province will support the financing structure
- The mechanics in respect of how the IESO is calculating the GA amount to be deferred and how the amount gets into the SPV to settle
- The role of the OEB in the Province's refinancing plan: finding the appropriate level of OEB assurance and participation while avoiding hindsight review

Questions from the Committee and discussion ensued. In the course of this discussion, Mr. Hartwick advised that one of the elements that OPG is insisting be a part of the legislation is a provision that if the Province takes any action either directly or indirectly, through any entity, that has the effect of impairing the ability of the SPV to collect on its debt, this will be an automatic trigger for the liability of the SPV to flow to the Province. Mr. Hartwick confirmed that this is an element of the proposed legislation that the rating agencies are also focusing on. Arising out of the discussion, the Committee requested the following information,

- ➢ That for the March 31st meeting of the Committee, management advise on the aspects of the proposed legislation that management objects to and is resisting and the aspects of the legislation which management is content with (*)

6. Next Steps/Next Meeting

The Committee will meet Friday, March 31, 2017 at 7 a.m.

Mr. Lewis requestes that the agendas for future meetings of the Committee set the update from the Ministry working group meetings as the first information item. (*)

The Communications Strategy and Issues item on the forward agenda for March 24th should be deferred to a future meeting. (*)

The meeting terminated at 8:00 a.m.

Committee Chair Vice President Corporate Secretary

Asterisk (*) denotes action to be taken

SPECIAL COMMITTEE
ACTIONS ARISING FROM THE MINUTES
[Current as of March 21, 2017]

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
LEGISLATIVE			
March 17, 2017	That for the March 31st meeting of the Committee, management advise on the aspects of the proposed legislation that management objects to and is resisting and the aspects of the legislation which management is content with	K. Hartwick J. Lee	Furture Agenda Item
FINANCING/BUSINESS CASE			
March 10, 2017	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 14, 2017	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	In relation to the proposed Financing Structure, management is to ensure that OPG's subordinated debentures issued to the SPV are adequately protected	J. Lee	Noted in workplan
March 17, 2017	In respect of the residential bill forecast on slide 5, that a sensitity analysis be done on carbon pricing, electricity demand and potential impacts of IESO contracts being renewed/not renewed	C. Crozzoli	Response will be provided at a future meeting when detailed sensitivities are presented (target April 7)
March 17, 2017	When management prepares the Business Case for OPG, that in respect of the graph on slide 2 relating to the electricity prices in Ontario, that management overlay OPG's costs per kilowatt hour through the same period	C. Crozzoli	Response will be provided at a future meeting when an updated electricity price graph is presented (target April 7)

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
Governance and Administrative			
March 10 and 17, 2017	Advise whether OPG's proposed management of the the financing SPV creates any issues for OPG under the Affiliates Relationship Code	C. Ginther	A preliminary view was provided in writing on March 17, 2017. Management will continue to assess the proposed arrangements between OPG and the SPV for ARC issues as the arrangements become more fully developed
March 17, 2017	Mr. Ginther will review the materials provided to the Special Committee in order to prepare an appropriate summary of the notable points for provision to the entire Board. Mr.Ginther will send a draft of the summary to Mr. Lewis for his review before finalizing the document for broader circulation	C. Ginther	Draft to be provided to Mr. Lewis by Thursday March 30.
IESO/OEB			
N/A			
Communications & Strategy			
March 10, 2017	How is OPG planning to approach the communications issues involved in OPG's participation in the Province's plan	J. Rowe	At the Committee's request on March 17, a report on this is deferred from the March 24th meeting to a future meeting.
Other			
N/A			
Completed Actions			
March 10, 2017	It was requested that management prepare a baseline forecast of the Debt Accumulation and Residential Bill Forecast.	C. Crozzoli	
March 10, 2017	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	Update sent to directors March 22, 2017.
March 10, 2017	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	Update sent to directors March 22, 2017.

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
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March 17, 2017	Mr. Lewis requests that the agendas for future meetings of the Committee set the update from the Ministry working group meetings as the first information item.	C. King C. Mathias	Agendas updated
March 17, 2017	The Communications Strategy and Issues item on the forward agenda for March 24th should be deferred to a future meeting.	C. King C. Mathias	Item deferred to a meeting in April
March 17, 2017	The minutes of the meetings of the Special Committee, once approved, will be made available for the Board at large to review in the secure board portal	C. King C. Mathias	Made available to all directors on BoardVantage.

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March 20, 2017

Action Item: 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.

Response from Management:

- The equity injection will require OPG to issue additional shares.
- OPG's ability to repay equity is contingent on the ability to purchase or redeem these additional shares in future
- OBCA corporations have the power (but not the automatic right) to redeem shares (s. 32) unless it is built into the Articles
- OPG's Articles permit the corporation to issue an unlimited number of common shares only
- The Articles do not contain a redemption right by the corporation for common shares
- OPG has two options for ensuring a redemption right is available in future:
    1. Amend the Articles to add a right of redemption to the common shares; or
    2. Create an additional special class of redeemable shares – this would require an amendment to the current Articles
- Management will proceed with option 1 as it fits with the current model of making consequential amendments to the OPG Articles to reflect the GA financing needs

March 20, 2017

<u>Action Item: March 10, 2017 Green Bond</u>

It was requested that management advise whether if as part of the funding of the SPV there is any opportunity to have green bonds constitute part of the mix.

Overview:

- Green Bonds are debt instruments issued to raise capital specifically for projects that have environmental and/or climate benefits

- In January 2014 a consortium of investment banks, in consultation with issuers, investors and environmental groups, developed the Green Bond Principles ("GBP")
  - Updated in June 2016 with a focus on transparency
  - Provide guidance on Use of Proceeds, Process for Evaluation/Selection, Management of Proceeds, Reporting
  - Strong recommendation for issuers to seek external review of Green Bond programs ("Second Opinions")
  - Over 70 investment banks, issuers, and investors are members of the GBP (Including CIBC, RBC and Goldman Sachs)

- Green bond issuance has been relatively limited in Canada, representing less than 1% of total debt issued over the last three years
  - Ontario has issued C$2.1 billion across three deals with proceeds ring-fenced for a basket of clean transportation and energy efficiency projects
  - Quebec recently issued its inaugural C$500 million 5-year Green Bond with proceeds used to fund clean transportation projects

GA Funding Considerations:

- Green bonds require that proceeds are explicitly assigned to a specific project/investment with environmental benefits
  - However, the GA relates to a broad portfolio of green and non-green energy projects and programs

- To issue green bonds, segregation of funds and increased administration would be required (pre-issuance and post-issuance requirements)
  - Drafting and maintaining an appropriate Green Bond framework
  - Identifying and documenting eligible projects and assets
  - Tracking and reporting on fund allocations
  - Managing unallocated proceeds
  - Ensuring ongoing eligibility of projects and assets subsequent to investment
  -

- Vast majority of Green Bonds have priced at the same yield as non-green bonds (i.e. no pricing incentive) although there is additional time and cost required to initiate and maintain a legitimate Green Bond program

- Second Opinions on frameworks for selecting eligible projects for Green Bond proceeds (provided by organizations such as CICERO) generally do not support nuclear generation
  - "Another example of a potential weak point in a framework are nuclear power projects, not because of climate change concerns, but due to safety and waste challenges…" - Framework for CICERO's 'Second Opinions' on Green Bond Investments – April 2016

- Management will continue to assess the possibility of Green Bonds in the development of the borrowing platform

Agenda Item No. 3

Update from Ministry Rate Mitigation Working Group Meeting – March 23rd

Verbal Report

March 24, 2017

ONTARIO'S FAIR HYDRO PLAN
Initial Views on Financing Program

REASON FOR REPORT

This submission is to provide the Special Committee with a baseline work program and initial views for financing of the Fair Hydro Trust.

CONCLUSIONS

1) Multiple competing objectives from participating stakeholders are part of the consideration in developing a balanced financing program that meets the government policy objectives while protecting the interest of OPG

2) The Fair Hydro Trust (Trust) is expected to have alternative funding sources for both short term and long term funds. Short term funds would be available through a bank facility or asset backed commercial paper conduit. Longer term funds would be available through structured finance, project finance or corporate bond markets. The strength of the legislation, views of the rating agencies and marketing efforts to access a broad investor base will impact on the ability to access these funding sources.

3) A pooled approach to repayment rights of the regulatory asset increases flexibility to structure the financing in a way that achieves effective pricing.

HIGHLIGHTS

Details provided in Appendix 1 – Fair Hydro Trust Financing Program – Initial Views.

Submitted by:

"Original signed by:"

Ken Hartwick
Chief Financial Officer & Senior Vice President – Finance

APPENDICES

1. Fair Hydro Trust Financing Program – Initial Views

ONTARIO POWER GENERATION

Fair Hydro Trust Financing Program
Initial views

March 24, 2017

Stakeholder Considerations for Fair Hydro Trust Financing Program

- Investors
  - Credit protection
  - Well defined acceptable program with respect to the treatment of Rate payers
  - Tight covenants
- OPG
  - Appropriate ring fencing and minimal liability exposure
  - Reputational risk
  - Minimize credit rating impact
  - Maximize return on subordinated debt
  - Appropriate compensation for Financing flexibility
- Province (MOE/MOF)
  - Provide support and direction on Trust financing
  - Role in ongoing governance
  - Maximize the deferral impact on rate payers bills in the near term
- Ratepayer
  - Minimize cost of trust financing
  - Smooth impact of recovery in any given year
- IESO
  - Minimize credit risk
  - Flexibility of regulatory asset transaction
- Other considerations
  - Flexibility to unwind the trust

Baseline Work Program

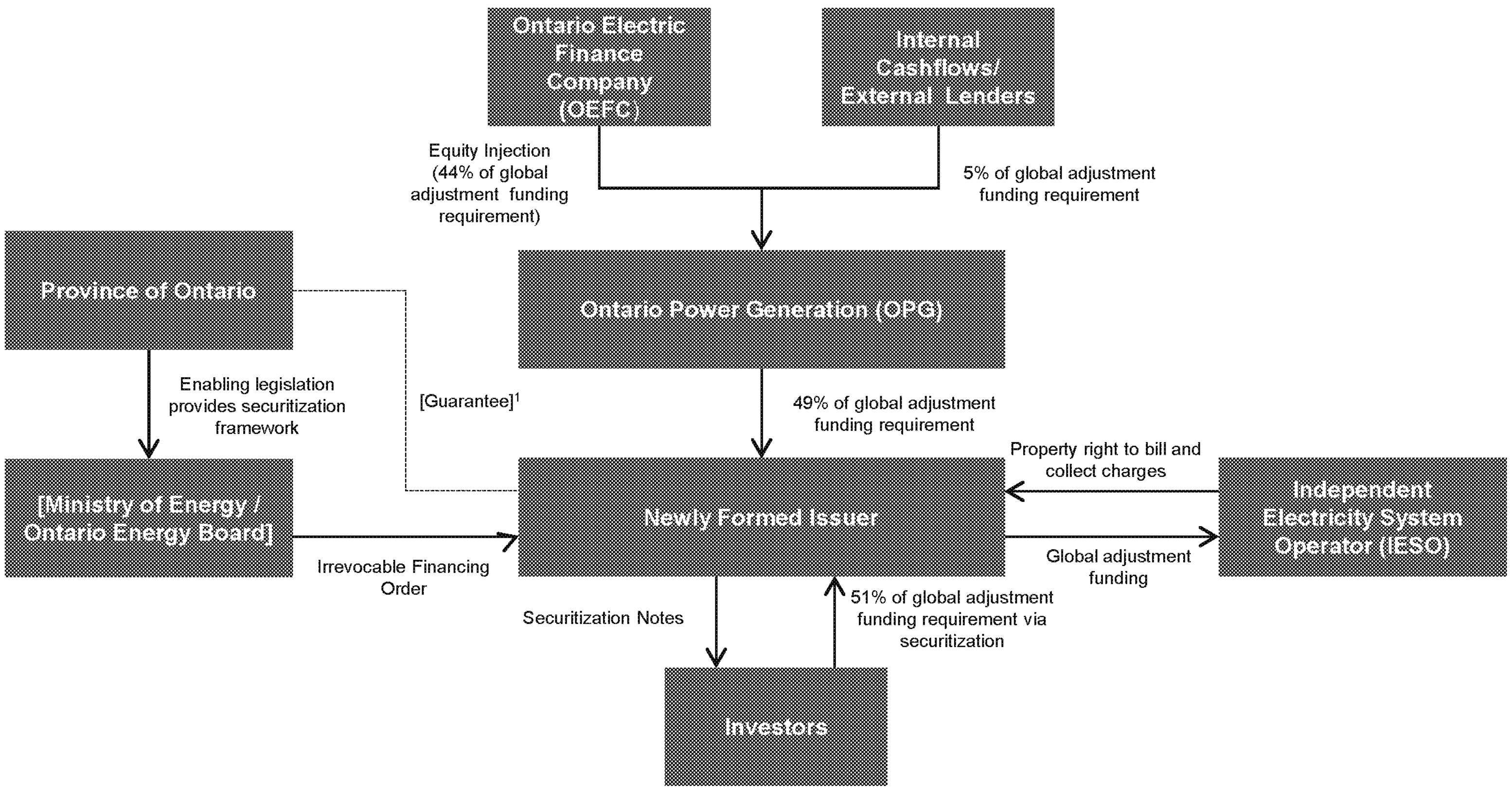
- Key work elements
  - Legislative & Regulatory Framework
  - Financing Strategy/Approach
    - Flexibility to access multiple funding platforms
    - Senior & subdebt optimization
  - Rating Agency
- Key Agreements
  - Term sheet (common key covenants)
  - Master Trust Indenture (Common Borrowing Platform)
  - Declaration of Trust
  - Sales & Servicing Agreement (IESO & Trust)
  - Financing & Management Services Agreement (OPG & Trust)
  - Administration Agreement
  - Equity Subscription agreement
  - Subordinated Debt Agreement

Funding Alternatives Overview

- There are several potential funding sources that is being consider to structure the overall financing program, including securitization (issued in Canada or the U.S.), bonds, bank financing, and commercial paper (CP)

	Short Term Funding – "Indicative Range 2-3%"			Long Term Funding – "Indicative Range 4 %to 5%"		
	1) ABCP Conduit	**2) Bank**	**3) Commercial Paper**	**4) Canadian Term ABS**	**5) Canadian Bond**	**6) U.S. Term ABS**
Market	• Canada	• Canada	• Canada	• Canada & U.S. (with 144A wrap)	• Canada	• U.S.
Annual Market Capacity (Largest Issuers)	• C$2bn+ for a syndicated facility	• Up to C$2.5bn+ syndicated facility	• C$2bn	• Aggregate C$1.5bn+ subject to structure (amortizer, bullet, tenor)	• C$2bn+[1] in fixed rate bullet bonds	• US$4bn+
Frequency and Potential Size	• Monthly up to the commitment amount of $1-2bn	• Monthly drawdown with repayment from the capital markets	• Daily postings for an aggregate of C$2.0bn	• 2-3 times annually for an aggregate of C$1.5bn+	• 2-3 times annually for an aggregate of up to C$2bn	• 2-3 times annually for an aggregate of C$4.0bn+
Duration	• Renewable committed warehouses (commitments typically 1-2 years) • Amortizing term-outs (WAL typically <4 years)	• Up to 5 years, annually extendible	• 30 – 90 days	• Bullet bonds up to 10 years are typical • Long tenor capacity to be explored	• Fixed up to 30 years • Flexibility of tenors	• Typically, amortizing assets are match-funded with amortizing debt
Rate	• Floating	• Floating	• Floating	• Fixed or Floating	• Fixed or Floating	• Fixed
Rating Requirement/ Agencies	• R-1 (high)/ P-1 ratings from DBRS and Moody's • Conduit RAC[2]	• None required	• Two short term ratings, including one from DBRS • Issuer rating	• AAA ratings from at least two of DBRS, Moody's, S&P or Fitch • Issue rating	• Two ratings from two of DBRS, Moody's or S&P • Issuer or issue rating	• AAA ratings from at least two of S&P, Moody's or Fitch • Issue rating
Hedging Required[3]	✗	✗	✗	✗	✗	✓
Feasibility	• High	• High, subject to structure and syndicate composition	• Low - Unsecured • Issuer rating required - unlikely for SPV	• High • Long tenor capacity to be explored	• High • Not tested in Canadian Market	• High/Medium

[1] Incremental capacity would be available with the addition of a 144A wrap; U.S. market access would require two ratings from Moody's, S&P, or Fitch and would require currency hedging.
[2] Rating Agency Confirmation
[3] Other hedging options (i.e. interest rate swaps on floating rate debt, bond forwards, etc.) can be considered, based on OPG's financing objectives.



[1] *Replacement for constitutional protection "state pledge"; Allows noteholders contract rights in case of province impairment.*

Next steps:

- Legislation development
- Rating Agency approach – Canadian & US Broad Product Platform
- Determine appropriate level of Provincial support relating to mitigating legislation risk
- Develop appropriate/flexible trust structure
  - Required credit enhancement for senior/external debt
  - Appropriate risk/reward tradeoff for the subordinated debt
- IESO Sales and Servicing agreement
- GA management process over the term of the program

APPENDIX

Indicative Master Timeline

Week of:	March			April				May					June				July					August				September			
	13	20	27	3	10	17	24	1	8	15	22	29	5	12	19	26	3	10	17	24	31	7	14	21	28	4	11	18	25

A. Administration	Responsibility
1. Kick-off Meetings / Calls	OPG, JL, DC
2. Prepare Initial High-Level Work Plan	JL, OPG
3. Engage Dealers' Counsel	JL
4. Prepare & Execute Dealer Engagement Letter	JL, OPG

B. Legislative & Regulatory Framework	
1. Draft Legislation (Fair Hydro Plan Act, "FHPA")	PC, OPG, IC, DC, JL
2. First Reading of FHPA (April 20th)	Province
3. Finalize FHPA (Includes Amendments to Electricity & OEB Acts)	Province
4. OEB Financing Order	PC, OPG, IC, DC, JL
5. Form of Provincial Support (Legislation Protection)	PC, OPG, IC, DC, JL

C. Financing Strategy/Approach	
1. Review Financing Options & Determine Optimal Financing Approach	OPG, JL
2. Determine SPV Financing Structure	OPG, IC, DC, JL
3. Determine Financial Model Inputs / Drivers	OPG, JL
4. Develop Base Case Financial Model	OPG
5. Implement Various Funding Options Into Financial Model and Optimize	JL
6. Prepare Base Case Output and Sensitivities for Rating Agencies	OPG, JL

D. Rating Agencies	
1. Prepare Simplifed Rating Presentation Outlining Potential Structures	JL
2. Preliminary Discussions with Agencies (Methodology, Structures, etc.)	JL
3. Prepare Formal Rating Agency Presentation	JL, OPG
4. Rating Agency Meetings	RA, OPG, JL
5. Rating Agencies' Undertake Their Analysis	RA
6. Publish Credit Rating (CP or ABCP)	RA
7. Publish Credit Rating / Report (Term Securitization or Bond)	RA

E. Key Agreements	
1. Term Sheet (Common Terms & Conditions)	OPG, IC, DC, JL
2. Master Trust Indenture (Common Borrowing Platform)	OPG, IC, DC, JL
3. Declaration of Trust	OPG, IC, DC, JL
4. Master Sales & Services Agreement (IESO & SPV)	PC, OPG, IC, DC, JL
5. Financial Services and Management Agreement (OPG & SPV)	OPG, IC, DC, JL
6. Administration Agreement	OPG, IC, DC, JL
7. Subordinated Debt Agreement	OPG, IC, DC, JL
8. Equity Subscription Agreement with the Province	Province, OPG

F. Risk Management	
1. Consider Hedging Options (Rates, Currency, etc.)	OPG, JL
2. Prepare Required Documentation (e.g. ISDA)	OPG, IC, JL

G. Short-Term Debt Execution*[1]	
1. Syndicated Bank Credit Facility	OPG, IC, DC, JL
2. Commercial Paper	OPG, IC, DC, JL
3. ABCP Conduit Funding	OPG, IC, DC, JL
4. Price, Closing and Funding	OPG, JL

*Dependent on funding solution(s) selected

H. Mid / Long Term Debt Execution[1]	
1. Prepare Deal Documentation (both Canadian & US)	OPG, IC, DC, JL
2. Tactical Decisions (Product, Market, Timing, Size, Tenor)	OPG, JL
3. Marketing Period / Roadshow	OPG, JL
4. Price, Closing and Funding	OPG, JL

NOTE: This Master Timeline is intended to be a high level summary of the various workstreams illustrated above. Detailed schedules will be developed for each workstream as required.

[1] *Detailed execution timelines will be developed for each funding source selected*

Legend

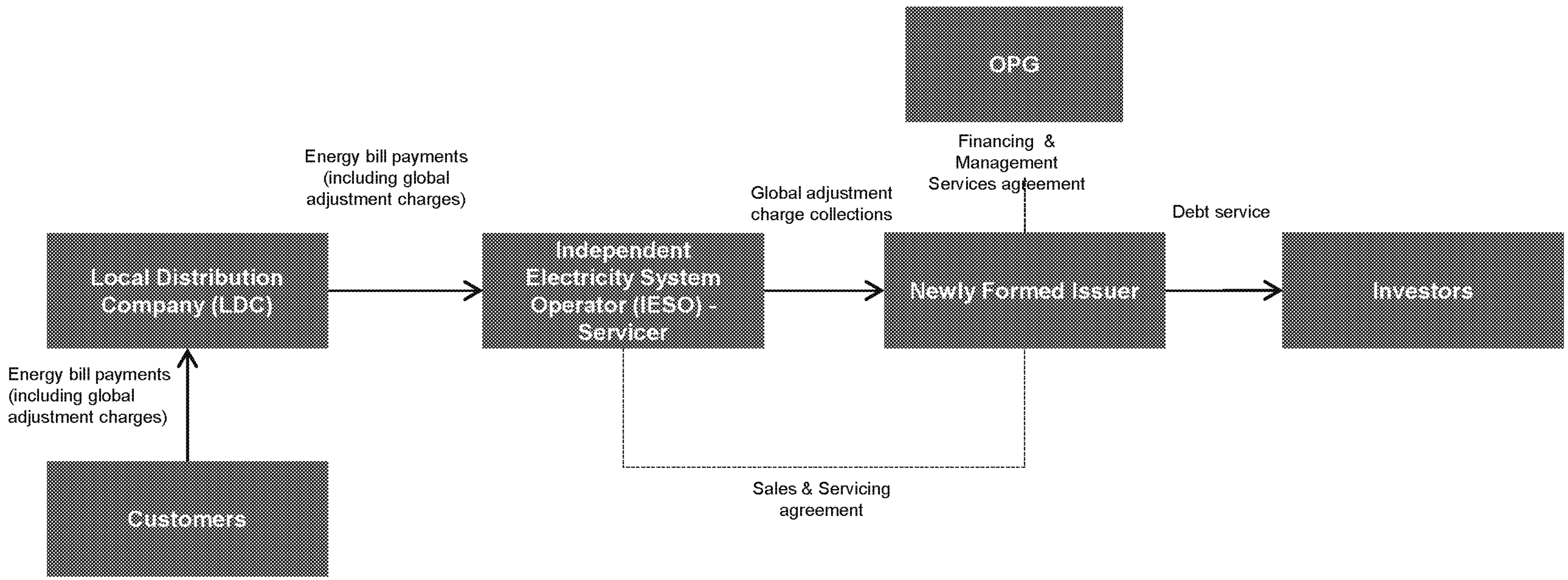
1. OPG - Ontario Power Generation
2. JL - Joint Leads
3. IC - Issuers' Counsel
4. PC - Province's Counsel
5. DC - Dealers' Counsel
6. RA - Rating Agencies

- Complete
- In Process
- Not Started
- Bank Holiday - Shortened Week

Bank Holidays

Upcoming Canadian Holidays:
April 14 - Good Friday
May 22 - Victoria Day
July 3 - Canada Day
August 7 - Civic Holiday

Upcoming U.S. Holidays:
May 29 - Memorial Day
July 4 - Independence Day
September 4 (Canada & U.S.) - Labour Day


OPG
Financing & Management Services agreement
Energy bill payments (including global adjustment charges)
Global adjustment charge collections
Debt service
Local Distribution Company (LDC)
Independent Electricity System Operator (IESO) - Servicer
Newly Formed Issuer
Investors
Energy bill payments (including global adjustment charges)
Customers
Sales & Servicing agreement

ONTARIO POWER GENERATION

FOR INFORMATION to the Special Committee of the Board

March 24, 2017

ONTARIO'S FAIR HYDRO PLAN
Preliminary Business Case Elements for OPG

REASON FOR REPORT

This submission is to provide the Special Committee the preliminary business case elements for OPG's participation in the Province's Fair Hydro Plan. In depth financial analysis and risk assessment is in process.

CONCLUSIONS

1) OPG's primary financial benefit will be interest income on subordinated debt invested in the Global Adjustment Trust (Trust). Based on the Province's March 1, 2017 customer price mitigation scenario, net income is estimated to grow to a peak of $500M in 2028 and reduce gradually over time as the principle is repaid. OPG also expects to earn a fee for managing trust operations and recover all direct costs borne on behalf of the Trust.

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HIGHLIGHTS

Further details are provided in Appendix 1 – Preliminary OPG Business Case Elements.

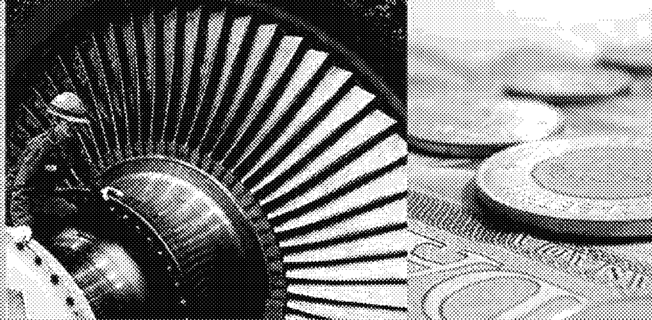
Submitted by:

"Original signed by:"

Carlo Crozzoli
Senior Vice President Corporate Business Development
and Strategy

APPENDICES

1. Preliminary OPG Business Case Elements



A TRUSTED BUSINESS PARTNER DRIVING VALUE

APPENDIX 1

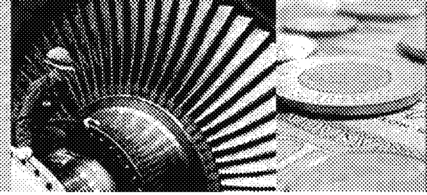
Preliminary OPG Business Case Elements

Special Committee of the OPG Board

Confidential and Commercially Sensitive

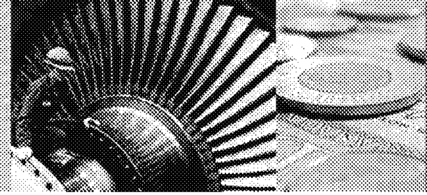
March 24, 2017

ONTARIO POWER GENERATION



Outline

- Illustrative Financial Benefits
- Illustrative Qualitative Benefits
- Next Steps



Illustrative Financial Benefits

Financial Baseline

- Illustrative financial impacts provided on the following pages are based on a price mitigation scenario developed by the Province on March 1st (will change as key inputs/assumptions are further developed)
  - Customer price mitigation through 2026
  - Trust borrowing peaks at $29 billion in 2027
- Key features of OPG Consolidated balance sheet include:
  - Cumulative shareholder equity injection of $13B that in turn is invested in the Trust as subordinated debt (44% of total funding)

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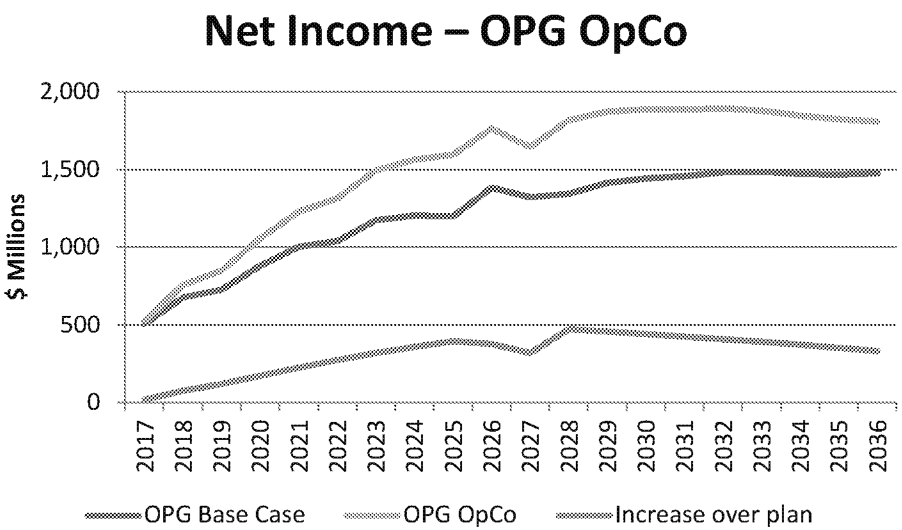
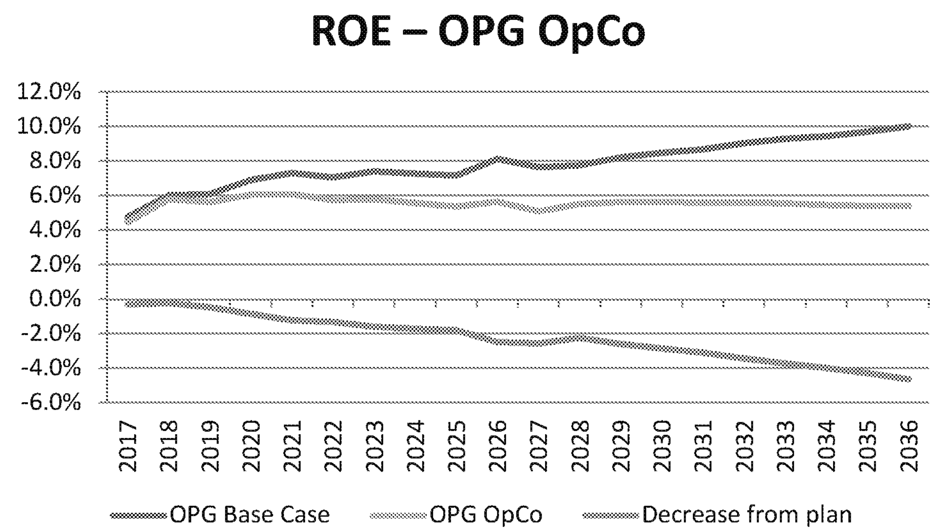
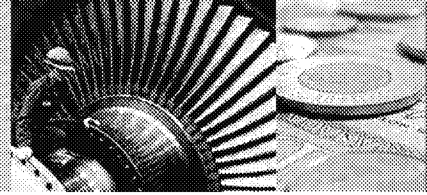
Illustrative Financial Benefits

Illustrative impact on OPG's Base Case from a price mitigation scenario provided by the Province



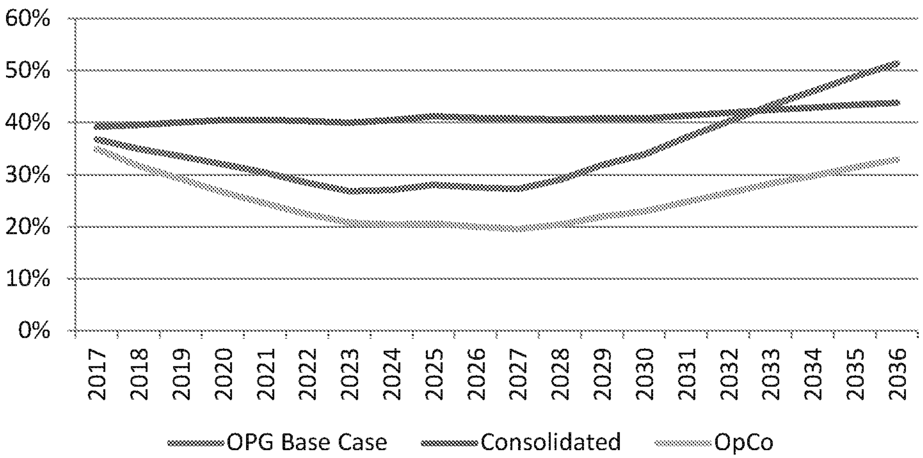


- OPG Net Income increases due to incremental interest income while Return on Equity is reduced due to shareholder equity infusions
- Magnitude of impacts will be dependant on legislative structure and future rate decisions

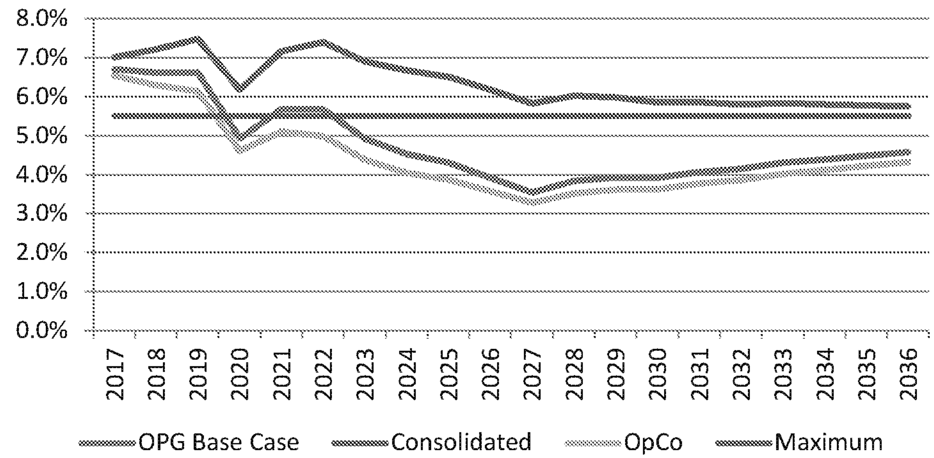


Illustrative Financial Benefits

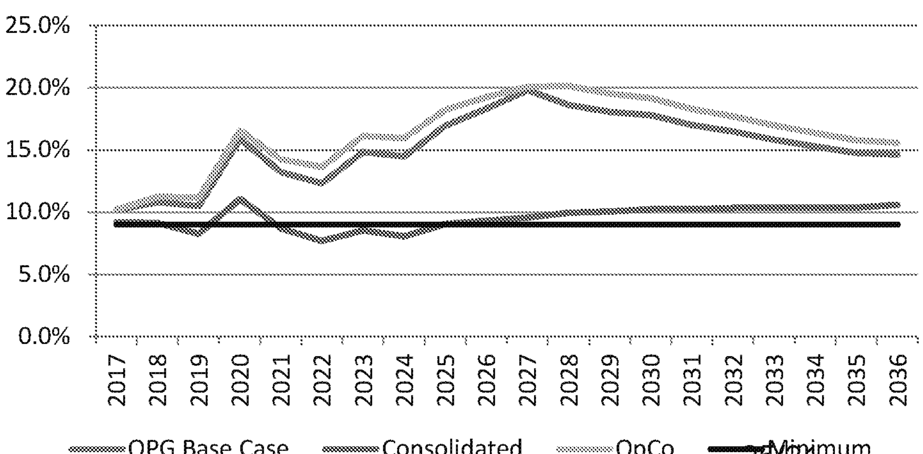
Debt Ratio



Debt/EBITDA



FFO/Total Debt



- OPG credit rating manageable under this scenario – dependent on Rating Agencies' level of focus on consolidated results
- Careful legislative precision required to fully ring-fence GA Trust from OPG OpCo

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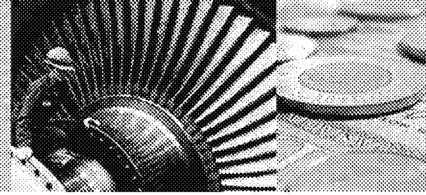
ONTARIO POWER GENERATION



Illustrative Qualitative Benefits

	Shareholder Commitments	Benefit to Shareholder	Benefit to OPG
1	Amendment of Electricity Act and Articles of Incorporation to allow external financing and implementation of a holding company structure (**Ele Act Amendments**)	Enhanced governance, customer savings, and improved equity returns over the long term	Improved corporate governance, financing flexibility and operational flexibility
2	Management fee for providing Trust administration and operation (**Trust Mgmt Fee**)	Demonstrates independent operation of the fund and provides proof that the debt and liabilities are independent of both OPG and the Government	Leverages OPG expertise and provides compensation for oversight services financially beneficial to OPG

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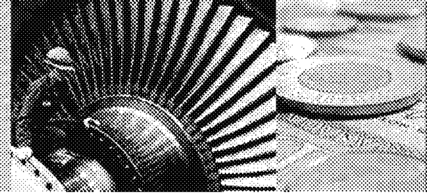
GENERATION

Illustrative Qualitative Benefits

Redacted - Commercially Sensitive

ONTARIO POWER GENERATION



Illustrative Qualitative Benefits

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Next Steps

1) OPG Modeling

1. Electricity System Model
- Produces forecast of electricity bills and demand outlooks

2. Trust Model
- Takes forecast of electricity bills from the System Model and compares to proposed Fair Hydro Plan legislation to determine borrowing requirements
- Optimizes borrowing and calculates ongoing interest

3. Corporate Model
- Takes outputs from Trust Model to determine financial impact on OPG.

2) Risk assessment and input to legislation

- Perform sensitivity analysis to stress program economics
- Program modeling used as input to legislation

ONTARIO POWER GENERATION

Appendix – Sensitivities

The following are the key assumptions that will be examined for sensitivity analysis to GA Trust and OPG metrics:

- Carbon pricing
- Foreign exchange prices
- Gas price forecast

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- Adjusting provincial sector demand outlook assumptions
- Interest rate assumptions
- Costs of system capacity beyond initial contract periods