A TRUSTED BUSINESS PARTNER DRIVING VALUE

Fair Hydro Plan – Debt Accumulation and Residential Bill Forecast

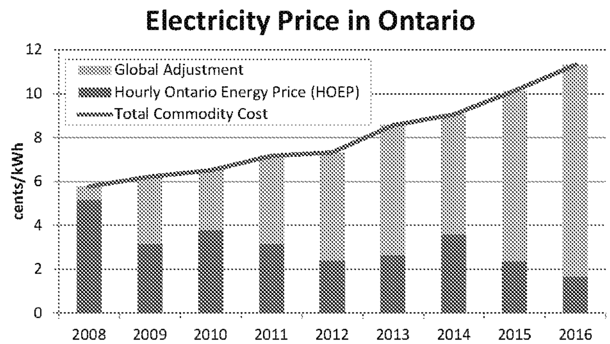
March 17, 2017

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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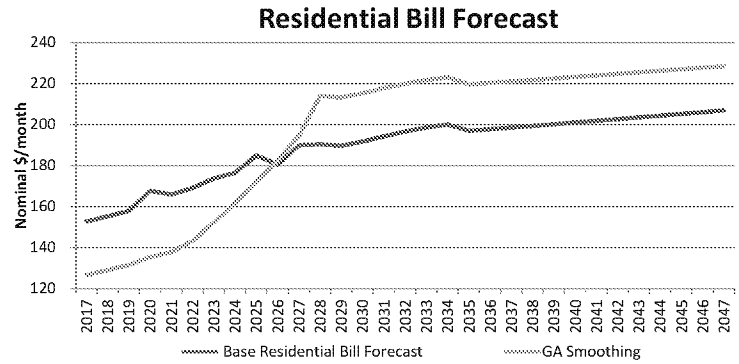
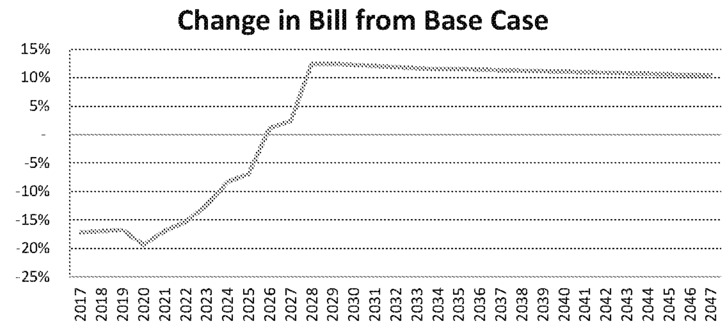
Ministry Proposal – March 2, 2017

- 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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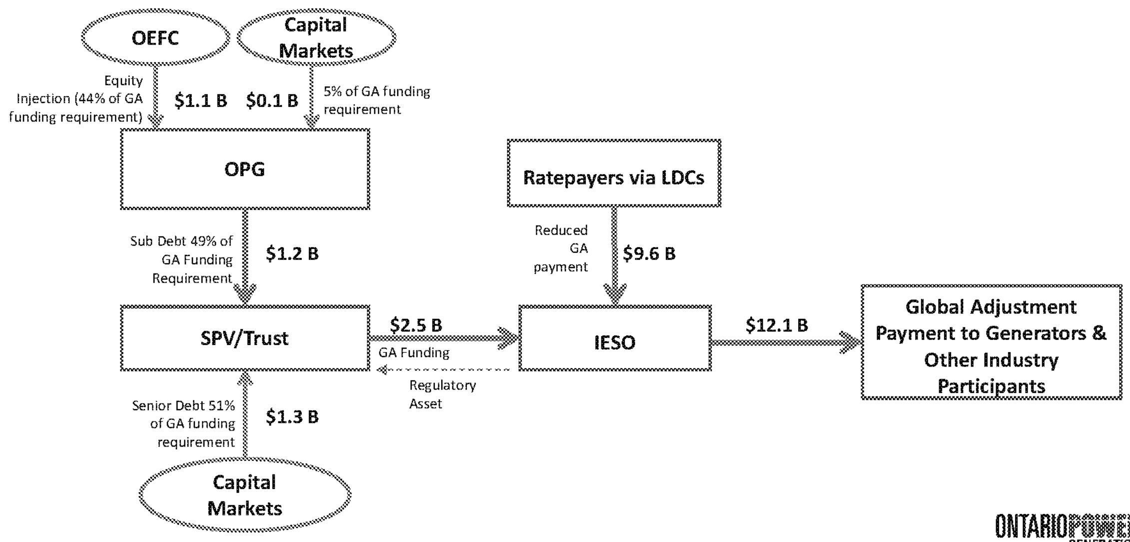
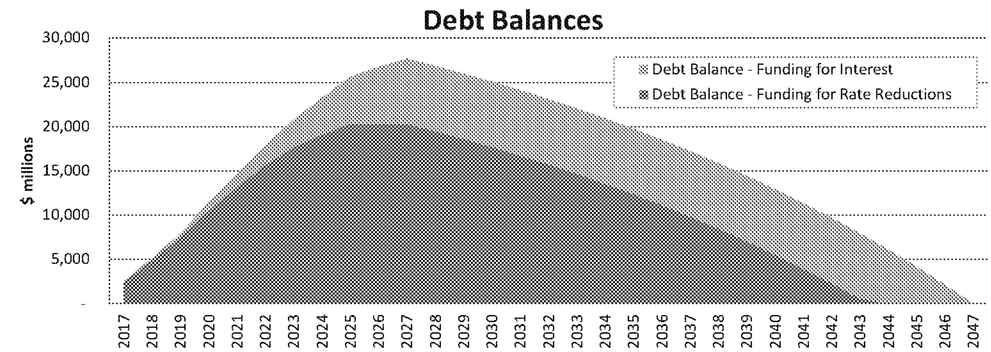
Financing Structure

- 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.

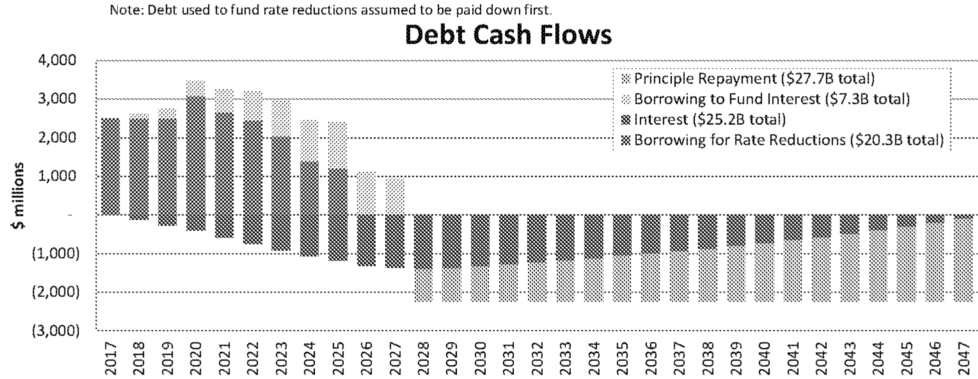
2017 $2.5 B GA Funding



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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