ONTARIO POWER GENERATION

AGENDA
SPECIAL COMMITTEE
Friday, April 7, 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** — Bernard Lord

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

2. **Minutes of Meeting/Actions Arising from the Minutes** — Bernard Lord

ITEMS FOR INFORMATION

3. **Update from Ministry Rate Mitigation Working Group Meeting** — Ken Hartwick

4. **OPG Business Case** — Carlo Crozzoli

5. **Draft Shareholder Letters** — Ken Hartwick

6. **Draft Communications Framework** — Jennifer Rowe

7. **Next Steps** — Bernard Lord

8. **Next Meeting – April 13th**

   Tentative Agenda
   - *Update from Ministry Rate Mitigation Working Group Meeting*
   - *[Ernst & Young (re: confirmation of accounting treatment)]*

TERMINATION OF MEETING — *8:00 a.m.*

DATE	FUTURE MEETINGS AND AGENDA TOPICS
April 19 *1:30p – 4:00p*	• *Draft Board Memo and Recommendations for Committee Approval to Board* • *In Camera Session with Bill Orr*

Item No. 1

Constitution of Meeting

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

Ontario Power Generation

SPECIAL COMMITTEE OF THE BOARD

OPG Confidential Exclusive

Minutes of a meeting of the Special Committee of the Board of Directors of Ontario Power Generation, held by teleconference call, on March 31, 2017, at 7:00am.

Present	
George Lewis	Committee Chair
Bill Coley	Member
Lisa DeMarco	Member
Bernard Lord	Member
Peggy Mulligan	Member
Yezdi Pavri	Member

being a quorum of the Directors of the Committee, and

Jeffrey Lyash	President and Chief Executive Officer
Catriona King	Vice President, Corporate Secretary

The following individuals were in attendance:

1-8:	Ken Hartwick	
	Chris Ginther	
	Carlo Crozzoli	
	John Lee	
	Les Wong	
4:	Donnie Persaud	CIBC
	Katrina Niehaus	Goldman Sachs
	Ian Benaiah	RBC

1. Constitution of Meeting/Approval of Agenda

Notice of the meeting having been given to all the members of the Special Committee and a quorum of the members being present, the Committee Chair declared the meeting regularly constituted for the transaction of business on March 31, 2017 at 7:00 am.

a) Approval of Agenda

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

- The agenda for the March 31, 2017 meeting of the Special Committee was approved.

b) Declaration of Conflicts of Interest

The Committee Chair asked if there were any real, potential, or perceived conflicts of interest to disclose and none were declared.

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 of the March 24, 2017 meeting of the Special Committee were approved.

3. Introduction of Mr. Bill Orr, Fasken Martineau

Mr. Lewis welcomed Mr. Orr to the meeting, noting that further to previous discussion Mr. Orr has been retained as independent counsel to the Committee.

4. Financial Advisors' Views on the Trust Financing Program

Mr. Hartwick introduced the team of advisors from CIBC, Goldman Sachs and RBC with respect to financing of the proposed Special Purpose Vehicle (SPV)/Trust to implement the Global Adjustment Financing component of the Province's Fair Hydro Plan.

Mr. Persaud summarized the funding alternatives and the considerations for structuring the overall financing program, including: ABCP Conduit, Bank, Canadian Term ABS, Canadian Bond, US Term Debt (ABS/Bonds) and Subordinated Debt. In response to a question, Mr. Hartwick confirmed that OPG and the Ontario Financing Authority (OFA) are in agreement with respect to being prudent by issuing relatively shorter-term bonds through May/June 2018 and then lengthening terms thereafter.

The Committee asked questions regarding the feasibility of green bonds which the advisors did not recommend pursuing at this time. The Committee also asked questions regarding what provisions would be made in the terms for debt upon early termination of the vehicle, to which Mr. Persaud and Mr. Hartwick responded, noting that their preliminary view was that senior and subordinated debt of the SPV would become direct obligations of the Province in that circumstance. In terms of next steps, Mr. Persaud noted rating agencies will play a significant role in the next few weeks in determining the terms on which the SPV would be financed including the governance considerations below.

Mr. Persaud then summarized the key considerations for the structure of the SPV, including maintaining financing flexibility and appropriate governance and control, emphasizing the likely advantage from the perspective of the debt market and rating agencies of having OPG be the sole manager of the SPV. The Committee asked a number of questions and Mr. Persaud said the team is considering a number of options for SPV administration including the merits of reporting through OPG.

Ms. Niehaus summarized the legislative considerations for a transaction structure that satisfies capacity objectives and optimizes the cost of funding. The Committee asked a number of questions regarding the definition of property rights, the role of the Province in the event of non-viability, limitations to third party oversight including the role of the Ontario Energy Board (OEB), to which Ms. Niehaus and Mr. Hartwick responded. In response to a question, Ms. Niehaus noted that the parties, including Torys LLP, would be meeting later in the day and she would ensure that consideration is given to the definition of property rights. OPG will also ensure that a definition acceptable to OPG will be embedded in the legislation.

Mr. Benaiah advised that the team will approach all four rating agencies (DBRS, Moody's, S&P and Fitch), evaluate their methodologies and recommend to OPG the agencies best positioned to provide an optimal rating outcome. He summarized key rating considerations and the considerations in selecting a rating agency(ies).

5. Update From Ministry of Energy Rate Mitigation Working Group Meeting – March 30, 2017

Mr. Hartwick noted:

- the timeline for legislation is to finalize it for translation by April 17th and introduction to the Legislature on May 4th;
- discussions are becoming more granular and current efforts are focused on the required legislation, specifically what is needed to ensure financing versus the Province's interest in some form of oversight; a fair amount of "push-pull" is expected over next few weeks;
- the OFA has hired TD as their financial advisor on the nature and extent of guarantees by the OFA; and
- the Auditor General is now active on the file and the Province is meeting with the AG on April 19th, and the Ministry of Finance is more comfortable that the accounting works for the Province. There has been no change in OPG's accounting.

6. Overview of Rate Reduction Mechanism and Legislation

Mr. Lee referred to the material provided by Torys LLP with respect to the legislation, and drew the Committee's attention to the matter of the mechanism for setting the minimum required increases for recovery of the GA financing in Years 6 to 10. He noted that in order to maintain financeability/viability, the procedure for calculation will need to be fairly mechanistic with little/no discretion for the Province and the OEB to vary. He confirmed that OPG's position is that this mechanism needs to be embedded in the legislation.

The Committee asked a number of questions regarding the financeability of the SPV and the Province's concept of an advisory committee, as well as the Province's current forecast for the GA to exceed the 10% cap in customer bills in the out years, to which Mr. Hartwick, Mr. Lee and Mr. Ginther responded. This included noting rating agencies' stated concerns about the repayment charges peaking at 13% of customer bills, in that agencies see increases above 10% as being at risk for recovery and downward rating adjustments. Mr. Ginther confirmed that OPG and its advisors have been clear that financeability depends on OPG being the sole manager of the SPV (ie. no advisory committee) and there being no limit on the increase in customer bills from the GA beyond year 5.

In response to a question on maximizing returns while minimizing risk, Mr. Lee stated that when Management returns to the Committee it will include defined ranges and risk relative to each financing option and seek the Committee's input on the appropriate amount of return to be earned on OPG's investment in the subordinated debt in the SPV and risk to assume in terms of the variability/length of time for repayment (where the Committee may have flexibility) versus any risk of non-recoverability for which OPG's appetite would be nil.

7. Corporate Structures

The material was taken as read.

8. Next Steps

The Committee Chair noted that the agenda for the next meeting includes the Business Case and financial analysis, and indicated that the Committee will need a fairly "hard" number for the quantum of investment and the return on investment in order to assess the Business Case.

Ms. Mulligan asked that when the Business Case comes to the Committee it include the implications of renewal of other contracts. Mr. Crozzoli advised that OPG has a very good understanding and will include this in the submission.

The Committee Chair invited Committee members to send questions to Mr. Orr and himself. Mr. Orr indicated he welcomed questions and would provide timely responses.

9. Termination

The meeting terminated at 8:00 a.m.

Special Committee Chair Vice President, Corporate Secretary

Asterisk (*) denotes action to be taken

SPECIAL COMMITTEE
ACTIONS ARISING FROM THE MINUTES
[Current as of April 4, 2017]

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
LEGISLATIVE			
N/A			
FINANCING/BUSINESS CASE			
N/A			
GOVERNANCE AND ADMINISTRATIVE			
March 24, 2017	The major decisions, including governance and due diligence matters, will be documented with references to supporting records to evidence the process and reasons for the decisions. This will be captured in a matrix format. Customer impacts of the refinancing should also be a part of this or a separate matrix. A draft will be sent to Mr. Lewis for his review before finalizing the document for broader circulation	K. Hartwick C. Ginther	After review by Mr. Lewis, will be part of package of materials to the Committee to be reviewed in relation to Committee recommendations to the Board.
IESO/OEB			
N/A			
COMMUNICATIONS & STRATEGY			
N/A			
OTHER			
N/A			

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
COMPLETED ACTIONS			
March 10, 2017	It was requested that management prepare a baseline forecast of the Debt Accumulation and Residential Bill Forecast.	C. Crozzoli	Presented at March 17, 2017 meeting.
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.
March 10, 2017	Update to legal opinion on managing directors' duties flowing from participation in the refinancing of the GA	C. Ginther	Update sent to directors March 22, 2017. The materials sent were noted as solicitor-client privileged documents. A black line to the initial opinion and a clean draft were both provided.
March 10, 2017	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	A legal opinion was provided by management on March 17th.
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 was provided at the March 24 Special Committee meeting and will be incorporated in final business case.
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	Preliminary forecast of interest income included in March 24^{th} meeting. Response in terms of economic return (IRR/ROE) will be provided as part of the final business case when rates on sub debt are finalized (April $13^{th}/19^{th}$).

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
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 April 7th meeting, agenda item no. 6
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.
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 24, 2017	Add presentation of the next iteration of the OPG Business Case to the April 7th agenda	C. King C. Mathias	April 7th agenda per item no. 4.
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	Completed on March 31 per agenda item no. 6
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 is part of OPG Business Case agenda item no. 4 on April 7 agenda.
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 is part OPG Business Case agenda item no. 4 on April 7 agenda

DATE	ACTION ITEM	ACCOUNTABILITY	RESPONSE FROM MANAGEMENT
March 24, 2017	Re: the Illustrative Qualitative Benefits of the OPG Business Case (Agenda Item No. 5) the list should be further categorized as to where OPG can obtain the support for each benefit: e.g. LTEP, Business Plan concurrence	C. Crozzoli	Response is part OPG Business Case agenda item no. 4 on April 7 agenda
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 that no ARC issues are created. Management will continue to monitor and include in major decision matrix prepared per other Action Item
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 that no ARC issues are created. Management is monitoring the issue and it is included in major decision matrix prepared per Action Item requiring matrix
March 24, 2017	Redacted - S/C Priv.		
March 10, 2017	How is OPG planning to approach the communications issues involved in OPG's participation in the Province's plan	J. Rowe	The Response is part of agenda item no. 6 on the April 7 meeting agenda.

Agenda Item No. 3

Update from Ministry Rate Mitigation Working Group Meeting

Verbal Report

April 7, 2017

ONTARIO'S FAIR HYDRO PLAN
OPG Business Case

REASON FOR REPORT

The purpose of this submission is to provide the Special Committee an update on the business case for OPG's participation in the Fair Hydro Plan (FHP).

CONCLUSIONS

1) OPG has updated modelling of the proposed FHP Trust (Trust) using OPG-developed scenarios for the commodity cost (cost of generation) and using the Province/IESO forecast for the remainder of the electricity bill.

2) OPG's primary financial benefit will be interest income on subordinated debt invested in the Trust. The majority of the funds for the subordinated debt investment will come from equity injections from the Province over the program period. Net income is estimated to grow to a peak of about $460M in 2028 and reduce gradually over time as the principle is repaid. OPG also expects to earn a fee in the order of 5-10 bps for managing trust operations.

3) Additional qualitative benefits that will support OPG's participation in the plan are also anticipated and strategies to achieve these are being developed.

4) OPG has modelled various stress scenarios to test whether the Trust can continue to effectively finance deferred system costs. Most stress scenarios are manageable, but a scenario that sees base interest rates at 7% (2% higher than base case) over the entire period requires mitigation steps that include increasing bills at a faster rate and beginning debt amortization 2 years earlier. More extreme situations would require the Province to pay the IESO any shortfalls resulting from the Trust reaching its financing capacity. OPG is working with the Province to further delineate how these situations will be addressed.

5) The financing structure which calls for equity injections into OPG and the ring fencing of the Trust is expected to mitigate negative credit rating impacts. However, some uncertainties remain such as the quality of the legislation and the degree to which the credit rating agencies place primary emphasis on the OPG operating company rather than OPG consolidated (which includes the Trust). OPG is continuing to work closely with rating agencies in this regard.

6) OPG is also developing its plan to manage reputational impacts. Further details on OPG's communication strategy are provided in a separate submission to the April 7, 2017 meeting.

HIGHLIGHTS

Further details are provided in

Appendix 1 – OPG Business Case Elements (April 7, 2017)

Submitted by:

"Original signed by:"

Carlo Crozzoli
Senior Vice President Corporate Business Development and Strategy

APPENDICES

1. OPG Business Case Elements (April 7, 2017)

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