ONTARIO POWER GENERATION

OPG Confidential Exclusive

Material Change Report Analysis: Ontario's Fair Hydro Plan

EXECUTIVE SUMMARY

Based on the analysis below, a material change report is currently not required. However, the Province's legislation and implementation of the Ontario's Fair Hydro Plan (the "Plan") should be monitored for when the crystallization of the Plan and involvement of OPG in the implementation of the Plan is determined. At that point in time, a material change must be disclosed with a press release, followed by a material change report to be filed within 10 days.

REASON FOR REPORT

To present the Disclosure Committee with analysis of when the Plan warrants a material change report to be filed in accordance with National Instrument 51-102 *Continuous Disclosure Obligations*.

GUIDANCE

Canadian securities laws require disclosure of **material changes.**

- A material change is:
  - a change in the business, operations or capital of an issuer that would reasonably be expected to have a significant effect on the market price or value of any of the issuer's securities; or
  - a decision to implement such a change made by the issuer's board of directors or by its senior management, who believe that confirmation of the decision by the board of directors is possible

Material changes must be disclosed "forthwith" by a press release, followed by the filing of a material change report describing the change, within 10 days.

ANALYSIS

Current facts regarding the Plan:

- The Province has developed proposed legislation expected to be tabled on May 11, 2017 that will amend the Electricity Act and the Ontario Energy Board Act to implement the Plan. The proposed legislation is a high-level framework that requires both regulations and principal agreements to implement. The regulations and principal agreements will have the operational details and mechanics of the deferral and risk allocation between the parties. These are expected to be negotiated and finalized in May and June 2017.

- The Province, the Independent Electricity System Operator and OPG have not yet entered into definitive agreements with respect to the Plan's implementation.

- OPG's Board of Directors has not approved any definitive agreements.

- OPG is estimated to derive financial benefit from its debt investment in the Trust to be established. Net income is forecast to increase by an average of $300 million per year and a total of $6 billion over the period of 2017 to 2047. OPG's Return on Equity is expected to be reduced on average by 2% per year. In addition, OPG anticipates management fees for its operation of the Trust. These fees are estimates to be in the range of 5-10 basis points.

OPG had disclosed material facts in the 2016 year-end Management's Discussion and Analysis (MD&A) and Annual Information Form (AIF) regarding the Province's initiative and its general objectives, OPG's role, and the process that OPG has adopted for review for review and implementation of the Plan. This disclosure will be updated as details of the Plan, its key provisions and agreements and OPG's involvement are resolved.

Redacted - S/C Priv.

CONCLUSION

As at April 27, 2017, based on the facts presented above, a material change report is not required. However, the Province's legislation and implementation of the Plan should be monitored for when the crystallization of the Plan and involvement of OPG in the implementation of the Plan is determined. At that point in time, a material change must be disclosed with a press release, followed by a material change report to be filed within 10 days.