ONTARIO POWER GENERATION

OPG Confidential Exclusive

FOR APPROVAL by the Board of Directors

May 5, 2017

ONTARIO'S FAIR HYDRO PLAN
Legal and Operating Governance Framework

DECISION REQUIRED

This submission is to request approval from the Board of Directors of the legal and operating governance framework for OPG's participation in the Fair Hydro Financing Trust.

ISSUE

OPG's significant involvement in the Fair Hydro Financing Trust requires a legal and operating governance framework to establish overall accountabilities as it relates to this program.

ANALYSIS

The objective of the legal and operating governance framework of the Fair Hydro Financing Trust is to provide oversight of OPG's activities under the financing and management services to the Trust while ensuring appropriate separation between the OPG Board and the Trust. A level of separation from OPG is established by structuring the entity as a Trust rather than a corporation. Elements are layered on to this structure to enhance the amount of separation and support the "bankruptcy remoteness" of the Trust from OPG. A Trust structure is also the market convention for the type of financing contemplated. The key elements of the framework are as follows:

- Establishing a Trust with limited power and specific purpose to separate the Trust from an operating entity with broader power and objectives.
- Separating the specific activities of the Trust from OPG operating activities so that these activities are not intertwined.
- Directing activities of the Trust through contractual arrangements rather than a Board of Trustees to support the limited purpose nature of the Trust that is not an operating entity which is a key market and credit rating consideration.
- OPG Board (Audit & Risk Committee) approves the share issuance progam in support of the Investment Strategy for OPG's ongoing investment in the Trust through subordinated debt. Appropriate amendments to the relevant Board charters will be made to reflect this change.
- OPG Management Oversight Committee approves the Financing Strategy for the Trust's financing activities and assesses performance against the strategy.
- OPG accountabilities with respect to the Trust are established at inception through the Financing & Management Services Agreement. Activities under this agreement are managed consistent with the Investment Strategy and the Financing Strategy.
- OPG Treasury establishes separate Structured Financing department with 2 sections: 1) deal planning, structuring and execution; and 2) operations, settlement and reporting.

Further details are provided in:

Appendix 1 – "Fair Hydro Trust – Control and Operating Framework"
Appendix 2 – "Fair Hydro Trust – Legal and Structural Framework"
Appendix 3 – "Fair Hydro Trust – OPG Operating Structure"

RECOMMENDATION

It is recommended that the Board of Directors approve the legal and operating governance framework as outlined in the appendices to this memorandum.

Submitted by:	**Approved for submission to the Board of Directors by:**
Ken Hartwick Chief Financial Officer & Senior Vice President Finance	Jeff Lyash President and Chief Executive Officer

This Board memo was reviewed and approved for submission to the Board of Directors by the Special Committee at their meeting of May 5, 2017

APPENDICES

1. Appendix 1 – "Fair Hydro Trust – Control and Operating Framework"
2. Appendix 2 – "Fair Hydro Trust – Legal and Structural Framework"
3. Appendix 3 – "Fair Hydro Trust – OPG Operating Structure"