FOR APPROVAL by the Board of Directors

May 12, 2017

OPG Participation in Ontario's Fair Hydro Plan

DECISION REQUIRED

The purpose of this memorandum is to provide a summary of OPG's proposed participation in the Ontario government's Fair Hydro Plan and to seek the Board's approval of:

- The business case for OPG's participation,
- OPG proceeding with participation in the Fair Hydro Plan in accordance with and subject to certain conditions set out in this memo,
- Extension of the mandate of the Special Committee to oversee OPG Management's negotiation of the regulations and the principal agreements to be put in place in connection with the Fair Hydro Plan,
- Establishment of a Financing Entity, and
- Delegation to Management the authority to implement OPG's participation in the Fair Hydro Plan, in accordance with and subject to certain conditions set out in this memo.

Management will return to the Board at a future date to seek the Board approval for OPG's issuance of Class A shares and public debt that will be required to finance OPG's purchase of subordinated debt from the Financing Entity.

ISSUE

Request for OPG's Participation

The Ontario government announced on March 2nd its proposed Fair Hydro Plan (FHP). The plan lowers average residential electricity bills by 25 percent on average commencing in the summer of 2017. This will be accomplished by:

- The Ontario Rebate for Electricity Consumers (OREC) rebate of the provincial portion of HST
- Shifting social programs from electricity ratepayers to taxpayers, and
- Deferring a portion of the Global Adjustment on a monthly basis in the near term so as to align electricity charges with a reallocation of cost responsibility for certain generation and conservation programs, over an extended period, based on a re-evaluation of the expected lives of the relevant assets.

The government has further committed to capping the increase on the average residential bill at the rate of inflation for three years following the initial year.

The Minister of Energy wrote to OPG April 13th requesting OPG's involvement in the implementation of Global Adjustment refinancing component of the Fair Hydro Plan. The Province requested that OPG consider administering the financing associated with the Ontario Fair Hydro Plan, because of OPG's participation in the market, regulatory knowledge and the potential ability to consolidate the activity and accounting with OPG. In the letter, the Minister recognized the need to provide OPG with the necessary assurances with respect to the recovery of its costs, achievement of adequate financial return, and to enshrine those requirements in the legislation along with the required changes to OPG's governing legislation and constating documents.

OPG's Board Chair responded to the Minister on April 18th committing OPG to work with the Independent Electricity System Operator (IESO) and Ontario Energy Board (OEB) to develop a plan. OPG noted that the Province's assurances regarding future cost recovery and an adequate return through enshrining the specific requirements identified by OPG and its financial advisors would be an important consideration for the OPG Board. These letters from and to the Minister are attached as Appendix 1.

OPG's Collaboration to Develop the FHP Legislation

OPG has worked collaboratively with the Ministry of Energy, Ministry of Finance, OEB, and IESO, as well as financial, legal, and accounting advisors, to assist in developing the legislative and contractual framework to implement the FHP.

The OPG Board of Directors established a Special Committee to:

- Provide timely strategic guidance to OPG management,
- Assess the financing and operational plan of the Financing Entity including the proposed governance framework for the entity and its impact on OPG's future financial results and performance measures, and
- Report and make recommendations to the Board with respect to OPG's participation in the Province's implementation of the refinancing plan, particularly with respect to OPG achieving its conditions precedent for participating.

The OPG Board of Directors also engaged Fasken Martineau LLP (lead - Bill Orr, Partner) to provide it with independent legal advice concerning OPG's participation in the FHP.

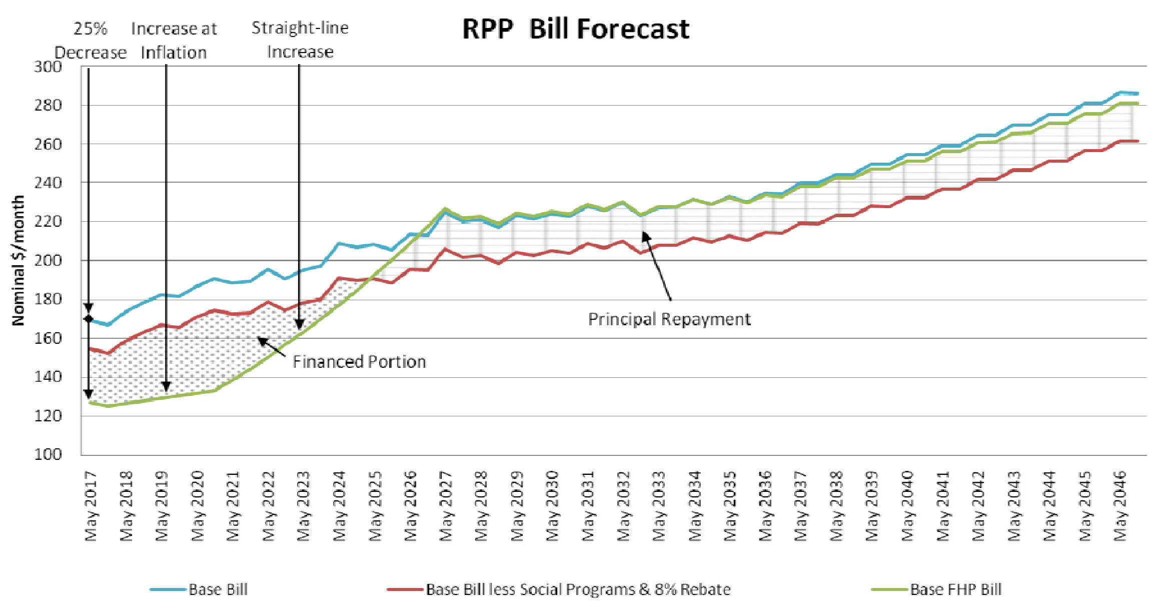
Framework for Implementing the FHP

The Province has developed proposed legislation that is expected to be tabled on May 11th to implement the FHP and amend the Electricity Act and the Ontario Energy Board Act. The proposed legislation is a high-level framework that will be supplemented by both regulations and certain agreements, which contain greater operational details and mechanics of the FHP deferral and risk allocation between the parties. These are expected to be concluded by June.

A summary of the FHP structure is included as Appendix 2 and contains:

- A summary of the proposed Fair Hydro Plan Legislation
- A summary of the key issues that are expected to be addressed in the regulations, and
- Draft term sheets for the key agreements required to implement the FHP.

The proposed legislation reduces residential customers' bills by 25% in 2017 and provides the framework to cap bill increases to the rate of inflation through April 2021. OPG's modelling suggests that, for the five years following May 2021, customer bills will have annual increases of 8.6% to return to levels sufficient to pay for the deferral. The impact of the customer bill is illustrated below and further details of the proposed framework are included as Appendix 3**.** OPG's contribution to the typical customer bill is currently about $32 per month and will rise to a maximum of $43 per month over the period.



OPG has been asked to assume the responsibility for managing refinancing and proposes to establish the Financing Entity to facilitate the borrowing required. Peak borrowing by the Financing Entity is expected to be $25 billion in 2026, after which the Financing Entity begins to amortize the repayment of the debt by 2047. The Financing Entity will borrow directly from capital markets and from OPG.

It is expected that OPG will control the Financing Entity and as a result, for accounting purposes it will be consolidated with OPG's consolidated financial statements. The accounting considerations are summarized in Appendix 4 along with an assessment by OPG's auditor Ernst & Young**.**

Careful structuring is required to establish an effective financing platform, facilitate the consolidation of the Financing Entity into OPG's financial statements, while maintaining OPG's credit rating. Key to this structure is the need for equity injection from the Province that will peak at $11 billion to maintain OPG's credit rating.

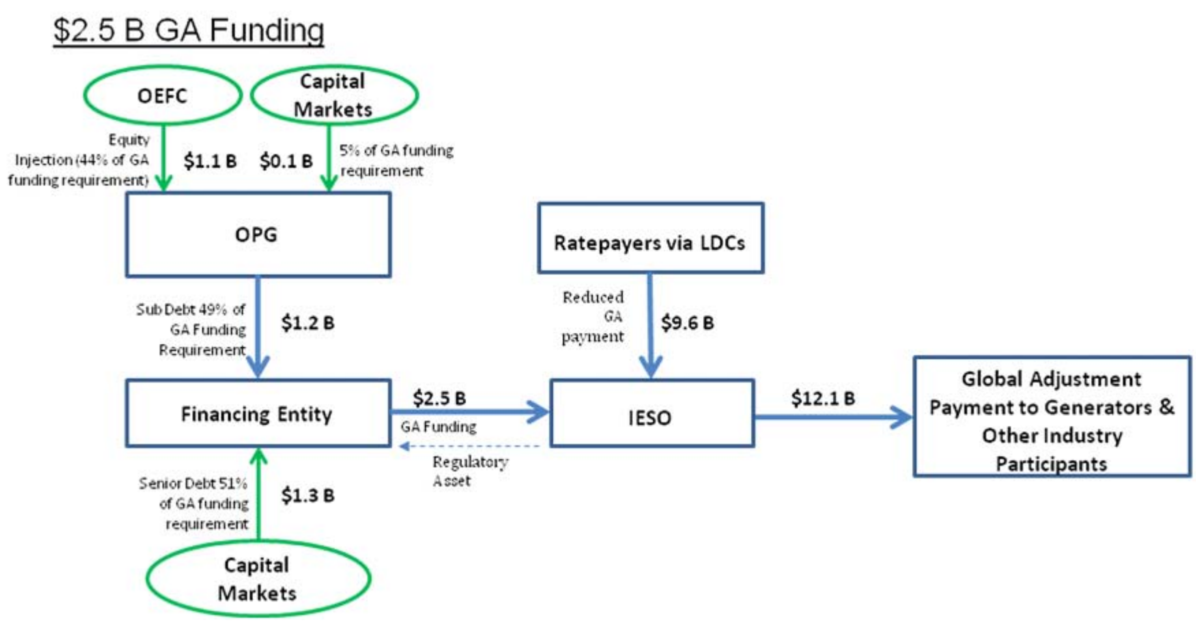
OPG will earn net income from the Financing Entity's interest payments on OPG's investment in subordinated debt issued by the Financing Entity net of the cost for OPG to borrow a portion of the funds from capital markets. OPG will also receive fees for managing the Financing Entity. OPG's annual net income would increase by about $290 million on average to 2036, which will be reflected in the shareholder accounts.

Financing Entity Financing Plan

The Financing Entity will implement a financing plan to fund the deferral. The financing plan will be flexible to align with borrowing requirements that will vary with electricity demand and market prices. The financing plan will be structured to minimize the overall cost of borrowing for the Financing Entity. See Appendix 5 for details of Financing Entity Financing Plan.

The desire to consolidate the Financing Entity on OPG's financial statements rather than the Province's drives the requirement to have different tranches of debt sourced independently and a requirement that 51% of the debt of the Financing Entity be sourced from the external capital markets. This senior tranche will be rated by at least two credit rating agencies and priced in the capital market subject to the legislation, regulations and agreements to be negotiated. As an additional accounting requirement OPG must own greater than or equal to 50% of the most subordinated debt tranche.

The various roles of OPG, Financing Entity, and IESO in the FHP are illustrated below.



The Financing plan can be divided into two phases:

(i) a net borrowing period from 2017-2026 and,

(ii) a debt amortization period from 2027-2047.

During the first phase debt created to fund variance accounts relating to the deferral of electricity charges will accumulate along with interest and other costs that will establish the "investment asset". Cash interest will be paid to the lenders but the cost will be added to future borrowing requirements rather than flow through to consumers during this period. Further, no principal on the debt will be repaid in the first five years. The Financing Entity will purchase the Investment Asset monthly from the IESO subject to the availability of funding. It is anticipated that starting in 2027 the accumulated debt created by the deferral will be recovered and paid down similar to a mortgage style payment that consists of principal and interest. The Financing Entity continues until all the debt is repaid.

The proposed legislation provides protection to investors, including OPG, by limiting future changes to legislation and authorizing the creation of additional financial guarantees that would further protect investors. These guarantees will be finalized in June.

Indicative Pricing for Financing Entity Funding

The chart below estimates indicative average pricing over the life of the program using the Senior Tranche A pricing of 4.25% (based on the Projected Province average long bond rate of 4% plus a 25 basis points (bps) premium to reflect the amortizing structure). For comparative purposes current pricing using the Province long bond rate of 3.0% (plus the same 25 bps premium) has been included to reflect the current low interest rate environment. The pricing for the sub debt Tranches B and C is based on an estimated indicative spread adder over the Senior Tranche A to reflect expected differences in credit quality. The base case assumption is a rating for the Senior Tranche A of AAA, and ratings for Tranche B of A, and Tranche C of BBB.

	Risk Profile	Source	% of Total Funding Requirement	Average Pricing	Current Pricing
Tranche A Senior Debt	the least risky	Capital Markets	51%	4.25%	3.25%
Tranche B Sub Debt	In between A&C	OPG via Province	39%	5.5%	4.5%
Tranche C Sub Debt	the most risky	OPG via Province	5%	6.5%	5.5%
		OPG via Capital Markets	5%	6.5%	5.5%

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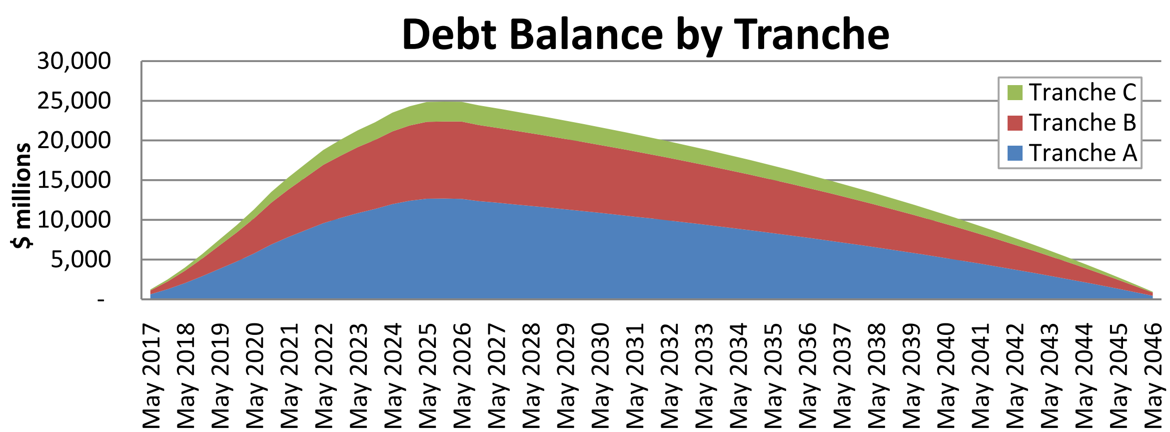
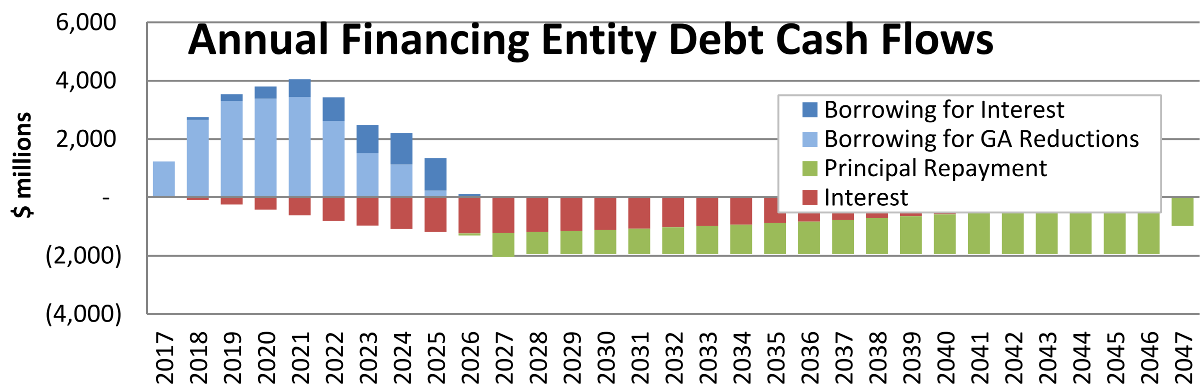
Financing Entity Borrowing and Cash Flows

The RPP price forecast shown above and the funding mechanism described above, lead to the Financing Entity holding a peak debt of $25 billion with the borrowing profile and amortization illustrated below.





OPG Investment Plan

Investment in Financing Entity:

OPG's investment plan will seek to minimize risk to OPG's credit rating while meeting Financing Entity control requirements and maximizing investment returns to OPG. The requirements for consolidation and minimizing the credit impact to OPG translates into an equity investment from the Province of 44%, and a 5% higher-risk subordinated debt tranche from OPG sourced in the capital markets. The need to consolidate the Financing Entity on OPG's financial statements means there is a requirement to fund the investment from the Province through equity versus debt to preserve OPG's credit metrics. As an accounting requirement there is also a need to deeply subordinate a component of the debt such that it takes on a higher level of risk. For every investment asset purchase from the IESO, the amount of these two OPG debt components would move in lock step with each other to maintain the percentage investment. All OPG-held debt tranches would not be traded in the market. It is expected the tranches would be priced using an adder to the senior debt fund in the capital markets. The subordination of the OPG debt may help to minimize the cost of the senior debt tranches in the external market by garnering a higher rating through some differentiation. OPG's deeply subordinated debt tranches will be initially funded using short term financing on a monthly basis and replaced in the capital market once the cumulative amount reaches sufficient size, and a debt platform is established.

Issuance of Shares:

To facilitate the equity investment from the Province, OPG will amend its Articles to create an additional class of share (Class A shares) that will be non-voting and redeemable at OPG's option. The Class A shares will be issued monthly at a value per share equal to their fair value as determined by OPG's quarterly financial statements. The equity injections will reflect the monthly funding requirements of the Financing Entity for the deferral amounts and an approved amount of equity from the Province based on a rolling two year estimate, consistent with OPG's business planning process. OPG will have the right to redeem the equity to the Class A shares at its option once principal repayment of the subordinate debt commences in 2027. See Appendix 6 for details of OPG's Investment Plan.

Timeline for FHP Implementation

The timeline to implement the FHP is attached as Appendix 7. It depicts the critical path for both short term debt and long term debt. The timeline is based on a typical securitization of a known asset class involving one counterparty with experience in securitization transactions. Under this timeline the Financing Entity is expected to be in a position to access the short term debt markets by the end of July 2017 with access to long term debt markets established by the end of October 2017. The FHP involves a new transaction under a structure not tested with key participants in capital markets including rating agencies and investors. These parties will need to be comfortable with the structure of the transactions and the investor protections contained within both the structure and the contractual arrangements. The contractual arrangements and structural documents will be multi-party agreements with counterparties that have different objectives and priorities. In addition, these documents could include counterparties that are government departments and agencies, or will require review by government departments or agencies due to the additional investor protections expected to be included such as a form of Provincial guarantee.

The business case and recommendation for OPG's participation rely on the development and implementation of the required legislative, regulatory and contractual framework consistent with the proposed legislation. Management will continue to brief the Board's Special Committee and seek its guidance throughout this implementation.

Management will separately seek the Board and shareholder approval at a future date for OPG's issuance of Class A shares and public debt that will be required to finance OPG's purchase of subordinated debt from the Financing Entity.

ANALYSIS

Business case

To support the Board's decision, OPG has undertaken extensive examination of the proposed participation in the Province's FHP including:

1. The benefits to OPG from financing the Financing Entity,
2. The impacts on OPG's existing business,
3. The impact on key stakeholders, and
4. The risks to OPG from financing the Financing Entity.

Details of the business case for OPG's participation are included in Appendix 8.

1. Benefits to OPG from financing the Financing Entity

Primary benefits to OPG are as follows:

a) Positive net income impact averaging $290 million per year over the period 2017-2036 primarily from its debt investment in the Financing Entity;
b) Amendments to constating documents and applicable legislation which will allow for greater flexibility for future commercial purposes and/or other growth initiatives;
c) Other qualitative benefits set out in Appendix 8

OPG Internal Rate of Return on its investment is projected to be 13.5%. This has been calculated assuming the Province's equity injections to OPG are treated as deemed debt and treats OPG's 5% investment in Tranche C subdebt as the investment at risk.

OPG's Return on Equity (ROE) is expected to be reduced on average by 2.1% during the period due to the $11 billion equity injection. Since a new redeemable equity class is proposed to be created for this purpose, OPG can mitigate future impacts on ROE by either redeeming equity or investing alternative growth opportunities.

2. Impacts on OPG's existing business

Careful consideration has gone into the proposed legislation, the structuring of the Financing Entity, and the funding of the Financing Entity to ring fence it from OPG and mitigate impacts on OPG's credit rating.

3. Impact on key stakeholders

In addition to assessing the impact on OPG's business, a number of the key structural decisions have been assessed for their impact on:

- The views and interests of the Province, as a key stakeholder of OPG; and
- The interests of other affected stakeholders including direct and indirect consumers of electricity in Ontario.

A summary of these key decisions and their impacts on these stakeholders in attached as Appendix 9 Decision Matrix.

4. Risks to OPG from participating in the FHP

Extensive scenario analysis has been undertaken to understand the structure and financing of the Financing Entity, the impact to external factors on the ability to finance the Financing Entity and the impact of the Financing Entity on OPG's operations. This scenario analysis has been used to influence the development of legislative mechanisms, the Financing Entity's financing strategy, and OPG's investment strategy.

The risks fall into 4 categories including operational, (reputational, financial, and accounting and consolidation risks. A detailed description of the risks can be found in Appendix 8 Business Case.

Key operational risks include the potential that the Financing Entity is unable to secure financing as a result of market conditions or a change in legislation. This is mitigated by the Financing Entity having no obligation to purchase investment asset from the IESO. Debt holders are protected by proposed legislative provisions to prevent changes in the legislation and to allow for contractual guarantees from the Province.

Key reputational risks result from OPG being seen by the public as the entity causing the large bill increases required in years 5-10. A communications plan is in place to mitigate the risk, and additional efforts will be required as the bills increase more quickly. It is believed that despite this mitigation, significant reputational risk will remain throughout the first 10 years of the Financing Entity.

The key financial risk to OPG is the potential downgrade of OPG's credit rating as a result of consolidation of the Financing Entity into OPG. This has been primarily mitigated by the contribution of equity by the Province in the funding structure. Initial discussions with Rating Agencies indicate that the structure as currently contemplated will be neutral to OPG credit rating. Final rating assessment won't be available until completion of regulation and material agreements.

OPG also faces financial and reputational risk associated with the timing of its next OEB rate case because it is scheduled in the same timeframe as large FHP increases in customers' bills following the period of inflationary increases. OPG will develop a regulatory and communications strategy to mitigate the risk.

Finally the key accounting and consolidation risks include a failure to pass the Financing Entity control test resulting in the consolidation of the Financing Entity into the Province's books. This has been mitigated by external accounting advice which has been incorporated into the development of the overall structure and legislation, and will be in the regulations. The risk to OPG is reputational rather than financial.

Communications Plan

There has been careful consideration of the potential reputational impact of OPG's participation in the FHP and OPG has developed a communications plan that is attached as Appendix 10**.** The plan has three objectives:

- Ensure that this is seen as a government, not an OPG, initiative.
- Be seen as helpful, without being seen to be politically motivated or biased.
- Leverage the opportunity to enhance OPG's brand by being seen as having the financial strength and sophistication to carry this off. Also, as Ontario's low cost generator, for this to be seen as a tangible way in which we are helping to moderate prices.

At this stage, OPG's participation in the FHP would not trigger a material change disclosure requiring an immediate press release. This will aid in achieving the first objective, as OPG will react to questions as required. When the Financing Entity is established OPG will have disclosure requirements which will be addressed at a future Board meeting.

Key talking points:

- The Ontario government has asked us to play a role in reducing customer rates by implementing the Global Adjustment Refinancing component of the Fair Hydro Plan, which is outlined in the legislation that was introduced.
- We were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large monetary funds.
- Our low cost energy already moderates customer bills and we see our role in the Fair Hydro Plan as another way we can play a part in helping customers manage energy costs.

Supporting messages:

- We remain the province's lowest cost electricity generator, producing half of the province's power at a cost that's about 40 per cent less than other generators.
- OPG is well suited to manage this long-term, major financial transaction as it has a proven track record in this area.
- We will be able to provide more details once the regulations that will direct the shape of the Financing Entity have been created.
- This new entity will be structured to ensure it does not impact OPG's existing operations.

RECOMMENDATION / RESOLUTION

That the Board of Directors approves:

a) OPG's Business Case for OPG's participation in the Fair Hydro Plan as set out in Appendix 8 of this memo;
b) The establishment of the Financing Entity and other organizational bodies in respect of the Financing Entity as well as the legal and operating governance framework for the Financing Entity;
c) The implementation of certain financings of the Financing Entity by OPG, as Financial Services Manager of the Financing Entity, consistent with the strategy articulated in Appendix 5 of this memo,
d) OPG Management concluding the contractual arrangements and structural documents to implement the Fair Hydro Plan, including the financings of the Financing Entity, as set out in this Board memo,
e) The resolution attached as Appendix 11,
f) all of the approvals above are subject to the following conditions:
   (i) the Province of Ontario enacts the legislation provisionally titled, "the Ontario Fair Hydro Plan Act, 2017" and its attendant Regulations that are consistent with OPG's requirements and objectives for participating in the Fair Hydro Plan, as outlined in this memo;
   (ii) OPG's Articles of Amalgamation are amended by the Shareholder to permit OPG to participate in the public debt markets without restrictions;
   (iii) the Fair Allocation Amount eligible for refinancing is confirmed by the Province in writing, and
   (iv) there is evidence in writing from the Province of Ontario that the Fair Hydro Plan, including the Fair Allocation Amount is determined by the Province's legal advisors to be Constitutional,
g) That OPG Management provides regular updates to the Special Committee in respect of the foregoing in the form, manner, regularity and duration requested by the Special Committee.

Recommended by:	**Approved for submission to the Board of Directors by:**
"original signed by:"	*"original signed by:"*
Ken Hartwick Chief Financial Officer and Senior Vice President	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 5th Committee meeting.

APPENDICES

1. Letters – Shareholder Communications
2. Fair Hydro Plan Structure
    a. Legislation
    b. Regulations
    c. Material contract term sheets
3. Fair Hydro Plan Mechanics
4. Accounting Analysis and draft Ernst &Young assessment
5. Financing Entity Financing Plan
6. OPG Investment Plan
7. Timeline for FHP Implementation
8. Business Case for OPG’s Participation in Ontario’s Fair Hydro Plan
9. Decision Matrix
10. Communications Plan
11. Board of Directors Resolution

Ministry of Energy

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Ontario

APR 13 2017

MC-2017-750

Mr. Bernard Lord
Board Chair
Ontario Power Generation Inc.
700 University Avenue, 19th Floor
Toronto ON M5G 1X6

Dear Mr. Lord:

I am writing to provide Ontario Power Generation Inc. (OPG) with additional detail regarding elements of Ontario's Fair Hydro Plan as announced by the government on March 2, 2017. Given OPG's active participation in the electricity market and its expertise in rate regulated accounting and investment stewardship over significant pension and nuclear funds, I am writing specifically to request OPG's involvement in the implementation of the Global Adjustment (GA) refinancing that will be required in relation to changes to the GA proposed as a component of Ontario's Fair Hydro Plan.

The Government of Ontario proposes to take steps to lower electricity bills by 25 per cent for a typical residential electricity consumer relative to what those bills would otherwise have been without Ontario's Fair Hydro Plan. Changes to the GA are proposed to be a component of the 25 per cent rate relief. This proposed 25 per cent rate relief measure would also be inclusive of the 8 per cent rebate that is already in effect under the *Ontario Rebate for Electricity Consumers Act, 2016* and the savings that are anticipated to result from the proposed shifting of the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRPP) program costs from ratepayers to provincial revenues.

I am requesting that OPG, working with the Ministry of Energy, the Independent Electricity System Operator (IESO), the Ontario Financing Authority (OFA) and their respective advisors, consider and recommend a plan for financing mechanisms that could achieve the Province's objectives with respect to Ontario's Fair Hydro Plan, all in accordance with any legislation and regulations currently in place, or that may subsequently be implemented, with respect to facilitating Ontario's Fair Hydro Plan.

In particular, the Province would like OPG's financing plan to consider, among other things, structures and methods that would permit refinancing of a portion of the GA in order to reduce electricity prices for specified electricity consumers, with the costs of the refinancing to be recovered over a period of no more than 30 years, all in accordance with any legislation and regulations currently in place, or that may subsequently be implemented, with respect to facilitating Ontario's Fair Hydro Plan. I would also expect OPG's financing plan to include:

.../cont'd

I. Potential structures for the financing, which may include, as appropriate, a special purpose vehicle (SPV) created for the financing;

II. Potential financing mechanisms and instruments, including senior debt and subordinated debt; and

III. Identification of the capital markets and jurisdictions that can be accessed to refinance a portion of the GA.

The Province recognizes the need to provide OPG with the necessary assurances with respect to recovery of the principal, interest and operating and other costs of any financing, and will consider the specific requirements identified by OPG and its advisors, including in any future legislation and regulations that would govern the mechanics and requirements of the financing entity. I would also request that your plan identify any amendments to OPG's governing legislation and constating documents needed to facilitate the implementation of the financing plan in a commercial manner.

I would further expect that OPG's financing plan would be implemented in an effective and cost-efficient manner by OPG balancing the need to protect the interests of ratepayers and the financial health of OPG. I would also further expect that OPG will ensure that any of its proposed borrowing and other activities under its financing plan take into account the "inter-generational" approach that the Province is intending to provide in executing Ontario's Fair Hydro Plan.

I look forward to receiving a detailed plan that has the support of the OPG Board of Directors by June 1, 2017.

Sincerely,

Glenn Thibeault
Minister

c: Hon. Charles Sousa, Minister of Finance
Scott Thompson, Deputy Minister of Finance
Serge Imbrogno, Deputy Minister of Energy
Gadi Mayman, CEO, Ontario Financing Authority
Jeffrey Lyash, President and CEO, Ontario Power Generation

ONTARIO POWER GENERATION

Bernard Lord
Board Chair

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Tel: 416-592-2115
bernard.lord@opg.com

April 18, 2017

The Honourable Glenn Thibeault
Minister of Energy
4th Floor, Hearst Block
900 Bay Street
Toronto, Ontario
M7A 2E1

Dear Minister Thibeault,

I am writing in response to your letter dated April 13, 2017, in which you requested OPG work with the Ministry of Energy, the IESO and the OEB and their respective advisors to consider and propose a financing plan to refinance the Global Adjustment in a manner that achieves the Province's price objectives, as outlined in the Premier's March 2, 2017 announcement.

As requested, OPG is working with the Ministry of Energy, the IESO and the OEB and their respective advisors to develop a plan that will incorporate the matters you identified, including potential structures and mechanisms that permit viable financing, sources of financing and required changes to legislation, regulations and OPG's constating documents to facilitate the implementation of the financing plan in a commercial manner. The plan will also include assurances that implementation of the financing plan will have no adverse impacts on OPG, its operating assets or the manner in which they are regulated. I note the Province's commitment to provide OPG with the necessary assurances with respect to recovery of the principal, interest, and operating and other costs of any financing. This will be an important consideration for the OPG Board.

OPG has engaged financial and legal advisors with significant capital markets expertise, including experience in the United States where a number of state-owned utilities have put in place highly rated financing for costs that are to be recovered over a long period of time. Work on OPG's financing plan is being guided by these advisors and precedents.

The Board will provide you with our recommendation and plan in the timeframe requested.

Sincerely,

Bernard Lord

Bernard Lord
Board Chair

cc: The Honourable Charles Sousa, Minister of Finance
Scott Thompson, Deputy Minister of Finance
Serge Imbrogno, Deputy Minister of Energy
Gadi Mayman, CEO, Ontario Financing Authority
Jeff Lyash, President and CEO, Ontario Power Generation

APPENDIX 2: FAIR HYDRO PLAN STRUCTURE

PART A SUMMARY OF ONTARIO'S DRAFT PROPOSED FAIR HYDRO PLAN, "AN ACT TO PROVIDE THE FAIR ALLOCATION OF COSTS OF ELECTRICITY OVER TIME"

SUMMARY OF THE ONTARIO FAIR HYDRO PLAN ACT, 2017, IF ENACTED (THE "ACT")

The following is a high level summary of the key provisions of the Act.[1]

1. **Purpose of the Act**

- to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers (described below);
- to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and
- to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers.

2. **Provincial Pledge & Guarantees**

- No action or omission by the Ontario Energy Board (the "**OEB**"), the Minister of Energy (the "**Minister**") or the Crown will be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment (described below) or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.
- The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province with any person in respect of the Act, including agreements regarding the performance of IESO or electricity vendors under the Act or similar transactions.
- The Lieutenant Governor in Council may, by order: (i) authorize the Minister and the Minister of Finance, acting together on behalf of the Province, to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment asset on behalf of the Province, including determining the terms of any such guarantee or indemnity; and (ii) specify terms and conditions that must be included in any such guarantee or indemnity.

[1] This summary is based on the May 1, 2017 draft legislation.

3. <u>Specified Consumers & Reduction to Electricity Bills (such reduction, the "fair adjustment")</u>

- The class of "specified consumer" eligible for the reduction in electricity bills under the Act includes consumers that are eligible for the Ontario Rebate for Electricity Consumers (OREC) program (or such other person as may be prescribed by regulation).

- From July 1, 2017 until April 30, 2018, electricity rates payable by a "regulated rate consumer" (a specified consumer that is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1988* (the "**OEB Act**")) will be the rate that would result in a fictional regulated rate consumer who meets the prescribed criteria being charged an invoice amount that is 25% less than the regulated rate that would otherwise have been determined by the OEB (which reduction includes the existing 8% OREC reduction).

- The Lieutenant Governor in Council may make regulations prescribing the methodology to be applied by the OEB after April 30, 2018 for the purpose of, among other things, determining electricity rates for specified consumers.

- Any prescribed methodology to be applied after June 30, 2021 must have regard to the fair allocation amount (described below), any clean energy adjustments payable and such other matters as may be prescribed.

4. <u>Creation and Transfer of Regulatory Asset</u>

- Each month, IESO will, in accordance with the regulations, determine the shortfall resulting from the fair adjustment and record this amount in a variance account.

- IESO will have the right to recover the balance recorded in the variance account from specified consumers and this right will be a "regulatory asset" under the Act. IESO will not be entitled to collect the balance recorded in the variance account from specified consumers before May 1, 2021.

- IESO may from time to time transfer a specified portion of the regulatory asset to a financing entity established by OPG, in its capacity as Financial Services Manager, in accordance with the Financing Plan (described below) for a cash purchase price and upon such sale the balance in IESO's variance account will be reduced by the amount of such payment.

- Financing entities may incur funding obligations to purchase all or a portion of the regulatory asset from IESO, but are under no obligation to make such purchases.

- Upon the transfer of all or a portion of the regulatory asset to a financing entity, the financing entity acquires an interest in the investment asset (called an "investment interest") that is a current and irrevocable property right consisting of the right to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers or electricity vendors, as applicable.

5. <u>Clean Energy Adjustment</u>

- The "clean energy adjustment" is the amount that will be payable by specified consumers to cover the cost of the fair adjustment and the costs to finance the fair adjustment.

- OPG, as Financial Services Manager, will determine the clean energy adjustment payable by specified consumers for each month of a reference period.[2] The clean energy adjustment is equal to the estimated finance amount in respect of a reference period, *plus* the true up amount (determined in accordance with the regulations) in respect of the reference period, *divided by* the number of months in a reference period.[3]

- The IESO will, as an agent for each financing entity, collect the clean energy adjustment from electricity vendors, which will in turn collect such amounts from specified consumers, and such amounts will be remitted by IESO to the financing entity.

- If electricity bills are not paid in full by specified consumers, payments shall be allocated to the clean energy adjustment and other amounts payable under the bill on a pro rata basis.

6. <u>Fair Allocation Amount</u>

- Before the first funding obligation is incurred, the Minister will calculate a fair allocation amount (i.e. an amount used to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among specified consumers) in respect of each reference period by applying such methods as the Minister considers appropriate and in accordance with certain steps, and with regard to certain principles, as set out in the Act.

- The Minister will provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

- A calculation of the fair allocation amount may be changed by such person as prescribed by the regulations. However, no such change shall effect any clean energy adjustment that has been determined or any funding obligation that has been incurred.

7. <u>OPG's Role as Financial Services Manager & the Financing Plan</u>

- OPG is appointed as Financial Services Manager under the Act.

- As Financial Services Manager, OPG will prepare and provide to the Minister a Financing Plan to be used to evaluate whether potential funding obligations should be incurred for the purposes of acquiring an investment interest. OPG may amend the Financing Plan at any time.

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[2] In the Act, "reference period" refers to the period beginning on July 1, 2017 and ending on October 31, 2017 and every six month period thereafter from November 1, 2017 to April 30, 2047 (or such shorter period as may be prescribed in the regulations).

[3] The parties intend that any taxes that may be payable by a financing entity will be recovered from ratepayers. OPG understands that the Province will address this in the regulations.

- OPG, as Financial Services Manager, will administer the investment asset on behalf of the financing entities.

- Subject to any limitations prescribed in the regulations, OPG, as Financial Services Manager, may establish and charge fees (after submitting them to the OEB for approval) to recover its costs as Financial Services Manager and to recover any other type of expenditure which is permitted under regulation to be recovered.[4]

- The Financing Plan will be prepared having regard to the following principles:

    (i) funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the OEB pursuant to the fair adjustment;

    (ii) incurrences should be implemented in a manner that OPG determines is reasonable, cost effective and that reflects prevailing market terms and conditions; and

    (iii) reasonable assumptions should be made regarding such matters as may be prescribed in the regulations under the Act.

- Until April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment unless:

    (i) the amounts are payable in respect of a reference period in respect of which the OEB has not made any determinations under the fair adjustment; or

    (ii) if the OEB has made a determination under the fair adjustment in respect of a reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

- OPG, as Financial Services Manager, shall ensure that funding obligations incurred for the purposes of the Act are incurred in a manner that is consistent with the Financing Plan, but each funding obligation incurred by a financing entity is deemed to satisfy such requirement.

- OPG, as Financial Services Manager, shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, OPG, the OEB, the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under the Act or under the express terms of a funding obligation or other agreement.

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[4] OPG/Torys have advised the Province that, for accounting purposes, the fees payable to OPG should be set out in the regulations and must be set at a market rate (i.e. greater than cost-recovery).

- No action or other civil proceeding shall be commenced against any employee of the Province or OPG for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under the Act or the regulations or any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

8. <u>Other Consequential Amendments to the Electricity Act and the OEB Act</u>

- The Electricity Act will be amended:

  (i) to expand the objects of OPG to ensure it has the authority to perform its duties under the Act, including carrying on activities through subsidiaries; and

  (ii) to make it clear that, in any proceeding, the assets and liabilities of the financing entities do not form part of the assets and liabilities of OPG and vice versa.

- The OEB Act will be amended to clarify that any OEB order under the Act in respect of OPG or any of its activities under the Act are not in respect of its regulated activities (i.e. related to a prescribed generation facility or the output therefrom).

PART B REGULATIONS

Draft regulations are expected to be provided after the Act has been substantially finalized and submitted for first reading. We expect that the regulations will address the following issues and have regard for the OPG interests articulated below.

A. OPG as Financial Services Manager:

We expect that the regulations will address the following matters:

- **OPG Administrative Fees:** establish the process and parameters applicable to the OEB's review of the administrative costs of OPG, in its capacity as the Financial Services Manager.

    - OPG Issue Commentary: OPG is reviewing various alternatives for structuring the Financial Services Manager fees. It is understood that these fees will need to include some profit component and be based on market comparables, with limited opportunity for OEB approval.

- **Preparation of the Financing Plan:** preparation of the financing plan will require OPG, as Financial Services Manager to make reasonable assumptions in preparing the Financing Plan in accordance with the parameters established in the regulations. These are expected to include: anticipated IESO funding shortfalls, maturities of funding obligations, availability of refinancing opportunities, availability of currency and interest rate hedging facilities, amounts and variability of interest rates and financing costs, and available capital markets in which funding obligations may be incurred.

    - OPG Issue Commentary: The Province will establish the initial fair allocation during the first year, after which it will be calculated by OPG pursuant to the methodology contained in the regulations. The fair allocation methodology should be clear but also permit flexibility for OPG to put together a Financing Plan.

- **Windup of the Financing Entity:** Without approval of the Minister, no Financing Entity may be voluntarily wound-up, liquidated or dissolved until one year after all of its funding obligations have been repaid.

B. The Investment Asset and Recovery of Costs by the Financing Entity

We expect that the regulations will address the following matters:

- **Defining the Funding Obligations:** the regulations will establish the types of payment obligations that constitute "funding obligations" for the purposes of the Act.

- **Defining the Finance Amount:** the regulations will establish the rules for calculating the estimated finance amount under the Act (for example: principle, interest, administrative costs and potentially, unrecoverable HST payments).

- **Rights Regarding Investment Asset:** the regulations will add greater detail regarding the various rights and entitlements associated with the investment asset that are in addition to those set out in the legislation.

- **Recovery of Tax Costs:** the regulations will include tax provisions to: (i) shelter OPG against income and commodity tax costs arising from the structure; and (ii) make income and commodity taxes incurred by the Financing Entity recoverable under the Investment Asset.

OPG General Commentary: OPG expects that all significant costs of the trust, including principal and interest, administrative and transaction costs will be recoverable by the Financing Entity with limited OEB oversight.

C. Electricity Rates and Rate Reduction/ Fair Allocation Amounts

We expect that the regulations will address the following matters:

- **Reduced Electricity Rate:** the regulations will specify the rate of electricity, or the methodology for establishing such rate, payable by the "specified consumers" (discussed below) between May 1, 2018 and April 30, 2021.

- **Definition of "Specified Consumer":** the reduced electricity rates are established in reference to a "specified consumer" which we expect the regulation to define.

- **Changes to the Fair Allocation Amount:** the regulations will state the persons who may change the calculation of fair allocation amounts and the conditions governing such changes, as well as for the provision of information needed to facilitate such a change.

OPG General Commentary: OPG expects that the regulations that address these issues will be clear and establish effective mechanisms for implementing the deferrals as well as the repayment of the deferred amounts plus all financing costs associated with the deferral. We also expect that the regulations will mandate the information that OPG requires to establish and update the fair allocation after the first year.

D. General Mechanics and Processes for Implementation

We expect that the regulations will address the following matters:

- **Definitions:** many of the concepts from the legislation will need to be defined more specifically in the regulations.

- **Calculating Reductions on Customers Bills:** the regulations will need to establish the aspects of consumer bills that are/are not to be considered in calculating reductions.

- **Invoice and Billings Process:** the regulations will set out the processes and requirements for issuance of invoices and remittance of payments as between consumers, distributors, retailers, the IESO and financing entities.

- **Information Dissemination:** the regulations will include the various requirements for provision of information by the Financial Services Manager to the OEB in respect of funding obligations and clean energy adjustments.

- **Calculation of IESO Shortfall:** the regulations will need to include sufficient detail regarding the adjustments to be used in calculation of, and conditions for the recovery by the IESO of, the funding shortfall it records in a variance account.

- **Obligations of a Distributor/ Retailer, etc:** The regulations will include the process and circumstances in which the Lieutenant Governor in Council may by regulation appoint a person to carry out the obligations of a distributor, retailer or similar party.

- **Invoice Matters:** the regulations will set out the processes for the inclusion of adjustments on invoices and any notices that must be provided to consumers in connection therewith;

OPG General Commentary: OPG expects that the regulations will establish clear mechanisms and build on the existing regulatory regimes (where possible) to promote the most efficient process possible.

PART C TERM SHEETS FOR MATERIAL CONTRACTS REQUIRED TO IMPLEMENT THE FINANCING ENTITY

<table>
<tr><th colspan="2">Declaration of Trust</th></tr>
<tr><td>General Description</td><td>On the assumption that the Financing Entity will be a trust, it will be established by a trust company (the “Issuer Trustee”) entering into a Declaration of Trust. The Issuer Trustee will delegate all of its powers as trustee to OPG pursuant to a Financial Services Agreement (described below) and an Administrative Services Agreement (described below).

In case it is determined that the Financing Entity should be a corporation rather than a trust, the Declaration of Trust would be replaced by articles of incorporation.</td></tr>
<tr><td>Key Terms</td><td>Establishment of Trust: Declaration establishes the trust to carry on activities for the benefit of unit holders.

Unitholders: To help establish that OPG controls the trust, the sole initial unitholder and beneficiary of the trust will be OPG (or a wholly-owned subsidiary of OPG)

Permitted Activities: The permitted activities of the trust will be limited to:
purchasing “regulatory assets” or “investment assets” from the IESO or other Financing Entities;
funding such purchases by issuing or incurring “funding obligations”;
activities ancillary to the points above in order to perform the functions expected of Financing Entities in the Act.
Replacement of Issuer Trustee: the Issuer Trustee may be replaced at any time by the Financial Services Manager (to help establish that OPG controls the trust)

Net Income: All net income of the trust each year will be fully distributed to unitholders, either in cash or promissory notes (to ensure no taxable income in the trust).</td></tr>
</table>

Administrative Services Agreement	
Parties	• Issuer Trustee , on behalf of the Financing Entity • OPG, as Administrative Services Manager
Key Terms	**Delegation Re. Appointment of Certain Servicers:** Issuer Trustee delegates to the Administrative Services Manager specific duties regarding the management of the Financing Entity including the retention of third party servicers such as legal counsel, accounting, auditing and paying agents. **Fees:** Administrative Services Manager's compensation will be limited to reimbursement of third party expenses [plus a markup approved by the Ontario Energy Board]. The priority of the Administrative Services Manager's compensation under this agreement will be subject to the terms of the Master Trust Indenture (described below). **Resignation/ Termination:** The Administrative Servicer may resign from its duties only if it appoints a replacement. The Administrative Servicer may only be terminated by the Issuer Trustee if the Issuer Trustee is required to do so under the terms of the funding obligations of the Financing Entity.

Financial Services Agreement	
Parties	• Issuer Trustee, on behalf of the Financing Entity • OPG, as Financial Services Manager
Key Terms	**Delegation Re. Management of Trust:** Issuer Trustee delegates to the Financial Services Manager all powers and duties of managing the Financing Entity not otherwise delegated pursuant to the Administrative Services Agreement (described above), including: initiating requests for true up amounts and exercising all other rights of the Financing Entity under the Act. **Incurrence of Funding Obligations:** Financial Services Manager will determine how and when to incur funding obligations to acquire investment assets or refinance existing funding obligations. **Separation Covenant:** Financial Services Manager will be subject to "separateness covenants" which, in general, are intended to ensure that the Financial Services Manager operates the Financing Entity on a stand-alone basis, separate from OPG, including ensuring that all funds remitted by the Servicer under the Master Sale and Servicing Agreements (described below) are paid directly to accounts of the Financing Entity rather than through accounts in the name of OPG. **Fees:** Financial Services Manager will be entitled to reasonable compensation for its services [as approved by the Ontario Energy Board]. The priority of the Financial Services Agent's entitlement to compensation under this agreement will be subject to the Master Trust Indenture (described below). **Resignation/ Termination:** The Financial Services Manager may resign from its duties only if it appoints a replacement. The Financial Services Manager may only be terminated by the Issuer Trustee if the Issuer Trustee is required to do so under the terms of the funding obligations of the Financing Entity.

Master Trust Indenture	
Parties	• Issuer Trustee, on behalf of the Financing Entity, acting through the Financial Services Manager • Indenture Trustee, acting for the benefit of Specified Creditors (described below)
Key Terms	**Issuance of Debt:** Provides for the issuance of commercial paper or separate series of term notes ("**Series Notes"**) through supplemental indentures. **Subordination:** Provides for different levels of subordination for both commercial paper and Series Notes. **Security:** Security is granted over all assets of the Financing Entity to the Indenture Trustee for the benefit of all "Specified Creditors" (described below)

	"Specified Creditors": all persons who may have contractual claims against the Financing Entity (including holders of senior and subordinated commercial paper and Series Notes, senior and subordinated lenders, hedge counterparties, credit enhancers, liquidity providers, the Financial Services Manager, the Administrative Services Manager, the Indenture Trustee, the Issuer Trustee). **Priority:** Includes detailed provisions providing for the priority of payments among Specified Creditors both before and after the occurrence of a "Trigger Event" (described below). All Specified Creditors would be required to agree in their respective agreements to be bound by the priority provisions in the Master Trust Indenture and to limit recourse to the assets of the Financing Entity. **"Trigger Event"**: will include payment defaults and covenant breaches (subject to applicable cure periods) and insolvency events. **Consequence of a Trigger Event:** Upon the occurrence of a Trigger Event: • the payment priorities change to direct all amounts that would otherwise be payable on subordinated funding obligations towards payment of senior funding obligations; and • certain remedies become available, including the right to replace OPG as Financial Services Manager and Administrative Service Manager. **Customary Terms:** Additional customary terms would include: representations and warranties, covenants, the list of Trigger Events and applicable remedies, governance for meetings of noteholders and Specified Creditors.

Supplemental Indenture	
Parties	• Issuer Trustee, on behalf of the Financing Entity, acting through the Financial Services Manager • The Indenture Trustee, a trust company, acting for the benefit of Specified Creditors
Key Terms	**Series Notes:** Includes key terms applicable to certain Series Notes including: • the designation of all notes in a Series and aggregate principal amount of each class of notes in a series; • interest rate for each class of notes; • expected final payment dates and legal maturity dates; • periodic payment dates; • terms specific to the Series that are not in the Master Trust Indenture.
Senior Funding Agreements	
General Description	Funding agreements could take several forms, depending on the form of the underlying funding obligation, but all parties to any form of funding agreement would be a Specified Creditor for the purposes of the Master Trust Indenture. • **Note Purchase Agreement:** Would typically be used in connection with the issuance of commercial paper pursuant to the Master Trust Indenture and would normally provide for the purchase of commercial paper on a committed or uncommitted basis for a period of one to three years, subject to extension. Indebtedness would be expected to be repaid from the proceeds of issuance of Series Notes. • **Credit Agreements:** Would be used to provide short term loans (perhaps up to 3 years) to fund the purchase of investment assets. Indebtedness would be expected to be repaid from the proceeds of issuance of Series Notes. • **Agency and Subscription Agreements:** When Series Notes are offered through investment dealers ("**Dealers"**) on a best efforts agency basis, the Dealers will enter into an Agency Agreement with the Financing Entity in connection with the offering of Series Notes. Individual investors under an agency distribution would enter into subscription agreements with respect to the Series Notes they purchase. • **Underwriting Agreements:** When Series Notes are to be purchased by Dealers on an underwritten basis it would be effected through an underwriting agreement between the Dealers and the Financing Entity.

Subordinated Funding Agreements	
General Description	Whenever senior funding obligations are incurred by the Financing Entity, it is expected that OPG or a subsidiary of OPG (the "**OPG Investor**") will acquire corresponding subordinated funding obligations to maintain a ratio of senior funding obligations to subordinated funding obligations of 51:49. The options available to the OPG Investor as to how to invest in subordinated funding obligations are flexible, so long as whatever options are chosen, the terms must provide that the rights of the OPG Investor are subject to the priority provisions in the Master Trust Indenture. • **Subordinated Note Purchase Agreements:** Where the senior funding obligations consist of commercial paper issued pursuant to the Master Trust Indenture, the OPG Investor may acquire subordinated commercial paper through a Subordinated Note Purchase Agreement that will largely correspond to the Note Purchase Agreements for the senior commercial paper, except that the commercial terms will reflect the subordinated nature of the investment. • **Subordinated Credit Agreements:** Where the senior funding obligations consist of loans made pursuant to Credit Agreements, the OPG Investor may make subordinated loans pursuant to a Subordinated Credit Agreement that will largely correspond to the Credit Agreements for the senior loans, except that the commercial terms will reflect the subordinated nature of the loans. • **OPG Investor Subscription Agreements:** Where senior Series Notes are issued pursuant to an Agency Agreement or Underwriting Agreement, the OPG Investor may acquire subordinated Series Notes created under the same supplemental indenture as the senior Series Notes pursuant to a Subscription Agreement with the Financing Entity. The terms of the subordinated Series Notes would largely correspond to the terms of the senior Series Notes, except that the commercial terms would reflect the subordinated nature of the notes.

OPG Equity Subscription Agreement	
Parties	• Issuer: OPG • Subscriber: Her Majesty the Queen in right of Ontario, as represented by the Ministry of Energy
Key Terms	**Equity Subscription:** Subscriber agrees to subscribe for Class A Shares of the Issuer in an amount equal to [44%] of total funding obligations (approximately $11B). **Class A Shares:** OPG will amend its Articles to create an additional class of shares- Class A shares- which will be non-voting and redeemable at OPG's option. **Use of Proceeds:** OPG agrees to use the equity subscription proceeds solely for funding the Financing Entity's subordinated debt obligations (as described above). **Value of Shares:** Class A Shares will be issued and redeemed at a value per share equal to the book value, as determined from OPG's quarterly financial statements. **Redemption Rights:** OPG will have the right to redeem the Class A Shares, which right is expected to be exercised once the subordinated debt is being repaid.

Master Sale and Servicing Agreement	
Parties	• IESO, as Seller and Servicer • Issuer Trustee, on behalf of the Financing Entity acting through the Financial Services Manager, as purchaser • **[OPG, as Financial Services Manager]**
General Description	Provides for the sale, from time to time, by the IESO to the Purchaser of the IESO's rights under its regulatory asset, thereby creating or increasing the Purchaser's investment asset
Key Terms	**Amount:** IESO to advise the Financial Services Manager of the amount of its regulatory asset from time to time. Upon the Purchaser securing funding obligations, the Purchaser may offer to purchase from the IESO rights in respect of a specified amount of the regulatory asset and IESO shall sell its rights to such portion of the regulatory asset to the Purchaser in accordance with the Act and regulation. **Investment Asset:** In accordance with the Act, the rights under the regulatory asset acquired from IESO become a part of the Purchasers investment asset under the Act. **Fully Serviced Asset:** The Seller will sell its rights under the regulatory assets on a "fully serviced basis", meaning that it will receive no additional compensation for carrying out its duties under the Act and regulations to bill electricity distributors for the amount of "clean energy adjustments" required to fund the Purchaser's funding obligations, and collecting such amounts from electricity distributors and remitting the same to the Purchaser in accordance with the Act and regulation. **Standard of Care of Servicer:** The Agreement will set out the standard of care of IESO as Servicer. While IESO will not be guaranteeing that collections from electricity distributors will equal the amounts invoiced to them, IESO will be expected to exercise the same degree of care and diligence that it uses in connection with the collection of other amounts from electricity distributors. **Servicer Defaults:** The Agreement will set out specific "Servicer Defaults". Upon the occurrence of a Servicer Default, it is expected that the Purchaser will be entitled to **[require the Province to appoint a replacement Servicer who will perform IESO's duties as Servicer]** (See "Provincial Support/Guarantee" below).

<table>
<tr><th colspan="2">Provincial Support Agreement/ Guarantee</th></tr>
<tr><td>Parties</td><td>Guarantor: Her Majesty the Queen in right of Ontario, as represented by the Ministry of Energy
Beneficiaries: Indenture Trustee under the Master Trust Indenture acting for the benefit of all Specified Creditor (as defined in the Master Trust Indenture)</td></tr>
<tr><td>Key Terms</td><td> Term: The Guarantor’s obligations under the Provincial Support Agreement will continue until [one year][1] after all Funding Obligations of all Financing Entities have been repaid.
Performance Guarantee: [Upon the occurrence of a Performance Guarantee Event], the Indenture Trustee will be entitled to require the Guarantor to appoint a replacement servicer who will perform IESO’s duties as servicer under the Master Sale and Servicing Agreement (described above). In the event that the performance guarantee is unenforceable against the Guarantor, the Provincial Support Agreement will contemplate a separate legal obligation by the Guarantor to indemnify the Indenture Trustee.
“Performance Guarantee Event”: A “Servicer Default” occurs, as defined in the Master Sales and Services Agreement (described above).
Payment Guarantee: [Upon the occurrence of a Payment Guarantee Event and within [5/10] business days after receiving a demand from the Indenture Trustee], the Guarantor shall [guarantee and indemnify the Indenture Trustee (for and on behalf of the Beneficiaries) by paying all regularly scheduled interest and principal payments during the term of a Financing Entity’s contractual obligation to such Beneficiary]/[assume the contractual obligations of a Financing Entity to the Beneficiaries][2], which for greater certainty shall not include any default, penalty, prepayment, or make whole amounts.
“Payment Guarantee Event” includes:
if the Legislative Assembly of Ontario repeals the Act; or
if the Legislative Assembly of Ontario amends the Act or Regulation thereunder in a way that adversely impacts the ability of a Financing Entity to fully recover an investment interest in order to fully pay all obligations incurred by such Financing Entity in respect of such investment interest; or
if a court of competent jurisdiction (i) determines all or a portion of the Act to be ultra vires in a way that adversely impacts the ability of a Financing Entity to fully recover an investment interest in order to fully pay all obligations incurred by such Financing Entity in respect of such investment interest or (ii) declares any funding obligations to be invalid or unenforceable.
Limits Under Guarantee: Under no circumstances shall the Guarantor be obligated to indemnify any Beneficiary for special or punitive damages, or loss of profits.
Priority of Payments: The priority of the Beneficiaries to any payment made by the Guarantor under the Provincial Support Agreement shall be governed by the priority provisions in the Master Trust Indenture (described above).
Subrogation: Where the Guarantor has repaid a Beneficiary, to the extent of such payment, the Guarantor is subrogated in and to all the rights of recovery of such Beneficiary in respect of the applicable indebtedness and the security granted by a Financing Entity to the Indenture Trustee. After repayment by the Guarantor of all amounts owing to a Beneficiary, the Indenture Trustee will acknowledge and agree on behalf of such Beneficiary that the Guarantor is entitled to exercise all of the rights, powers and privileges that the Beneficiary has or may exercise in respect of the repaid indebtedness, all in accordance with the terms of the Master Trust Indenture. </td></tr>
</table>

[1] This mirrors the requirement expected to be in the Regulations under the Act not to wind up, dissolve or liquidate a Financing Entity until at least one year after all of its Funding Obligations have been repaid.
[2] To confirm if Province will become the debtor under the applicable debt documentation or if the Financing Entity will continue to be the primary obligor with the Province acting as secondary obligor.

Appendix 3 Mechanics of Ontario's Fair Hydro Plan

This document provides an overview of how the Fair Hydro Plan is expected to work. It is based on OPG Management's understanding of the process that will be finalized in legislation, regulation and contracts. Some portions of the process have yet to be defined.

Overview of the FHP

On March 2nd, the Ontario government announced its proposed Fair Hydro Plan (FHP). The plan proposes to lower the average residential electricity bill by 25 percent. This will be accomplished by:

- The Ontario Rebate for Electricity Consumers (OREC) rebate of the provincial portion of HST (~5.7% of the original bill after-tax reduction)
- Shifting social programs from electricity ratepayers to taxpayers (approximately 1.6%), and
- Reallocating the payment of a portion of the Global Adjustment to realign the charges paid by ratepayers for new generation contracts and conservation programs over an extended period to match the re-evaluated expected life of the assets and the benefits of these initiatives (17.7%).

The government has further committed to capping the increase on the average residential bill at the rate of inflation for three years following the initial year.

The average residential electricity bill is expected to be determined by a proxy customer whose distributor is Toronto Hydro and who consumes 750 kilowatt-hours of electricity per month.

In order to reallocate the Global Adjustment payments, the Financing Entity will use debt to purchase Investment Assets from the IESO and amortize them over a longer period. This will lead to a near-term reduction electricity bills followed by an increase in electricity bills over the long-term as interest and principal is repaid.

Structure of the FHP

The Ontario government's proposed legislation is expected to provide OPG, as the Financial Services Manager, with the opportunity to form and operate the Financing Entity and defines the roles and obligations of OPG, the Financing Entity, the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

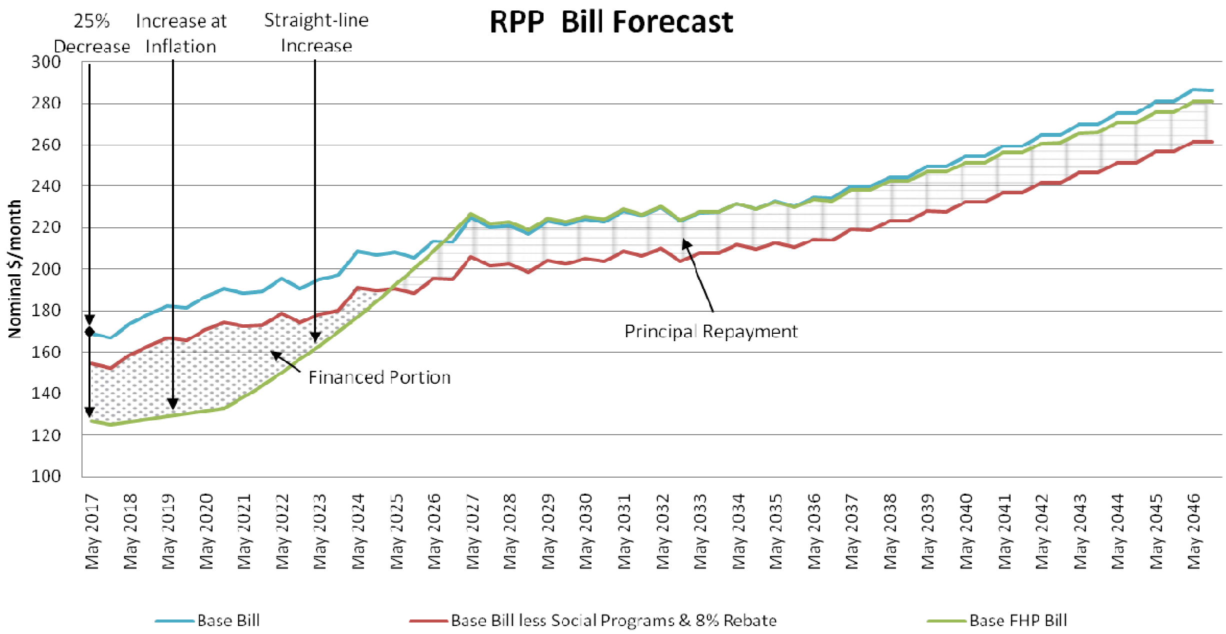
The OEB currently sets the Regulated Price Plan (RPP) prices in May and November. RPP sets the price that the LDC's charge for commodity cost line item for most residential bills in their service area. The OEB sets RPP prices to target recovery of commodity costs allocated to RPP customers. The OEB will continue in its role of setting RPP prices with the following expected new conditions over the following periods:

1. 25% Reduction (May 2017)
    - The average bill will be reduced by 25% inclusive of OREC and social programs noted above
    - The OEB reduced RPP bills to reflect 50% of the reallocation savings May 1 and will reduce RPP prices further in summer 2017 once legislation has passed.
2. Inflation Period (May 2018 –2021)
    - RPP price will be set such that total bill increases will be capped at the rate of inflation
3. Recovery Period (2021 to 2047)
    - RPP prices will be determined by the OEB ensuring the full recovery of the principal, interest and all fees included in the funding obligations
    a. Straight-line Increase Period (May 2021, for up to 6 years)
        - The Financing Entity will recommend to the OEB a straight-line rate (e.g., 8% per year) to increase bills over the period to:

    i. Ensure that borrowing will not exceed the Financing Entity's capacity, and
    ii. Increase the revenue recovered from eligible customers to exceed actual system costs with the excess available to pay interest and repay debt by 2047.

b. Amortization Period (End of Straight-line Increase Period – April 2047)
    - Ratepayers will repay debt built up over the previous periods as well as interest

The expected impact on the average residential bill is illustrated below.



The IESO will continue to operate the wholesale electricity market, pay generators contracted amounts and collect revenue from RPP customers via LDCs. The OEB will issue an accounting order that will authorize the IESO to create a variance account to manage the difference between actual costs and the RPP prices for eligible customers. These variances will be offered for sale monthly as an "Investment Asset". OPG will establish a Financing Entity to purchase these assets. The Financing Entity will have a right but not an obligation to acquire the Investment Assets. In exchange for buying the Investment Asset, the Financing Entity will receive the right to recover its principal, interest, fees, and all financing charges from ratepayers during the Amortization Period (2027-2047 in OPG's base forecast).

Impact on Electricity Bills

The FHP as proposed fixes electricity bills via the 1 year 25% reduction and 3 years where bills are capped at inflation. In reality, actual system costs will vary and must be recovered and paid out to generators, transmitters, distributors, etc.

OPG has undertaken extensive forecasting of how these system costs will evolve to determine how much debt the Financing Entity will need to take on to achieve the requirements set out in the legislation and expected to be set out in the regulations. Specifically, OPG has modelled the commodity cost line of electricity bills which includes costs related to electricity generation and conservation. OPG has included forecasts of OPG generation rates based on the current rate case including the proposed smoothing mechanism. In addition, given OPG does not have access to other generator's contracts, OPG has also included its up-to-date understanding of costs associated with other generation contracts. OPG is relying on the IESO's forecast of conservation costs going forward.

For the other components of the bill (Distribution, Transmission, and Regulated Charges), OPG is relying on forecasts produced by the IESO. The IESO forecasts are for 20 years and OPG extrapolated the forecasts out to 2047. Finally, OPG is relying on a Ministry of Energy forecast of the savings from moving the electricity social programs from the rate base to the tax base.

The following illustrates the components of an average residential bill along with the savings introduced by the FHP:

Status Quo Monthly Bill ($/Month)		May - Oct 2017
Commodity (GA and Wholesale Cost)		89.35
Distribution		41.61
Transmission		13.10
Regulated Charges (Wholesale Uplift)		5.72
Total Base Bill before Taxes		149.78
Harmonized Sales Tax (HST) Rate	13%	19.47
Total Base Bill After Taxes		**169.25**

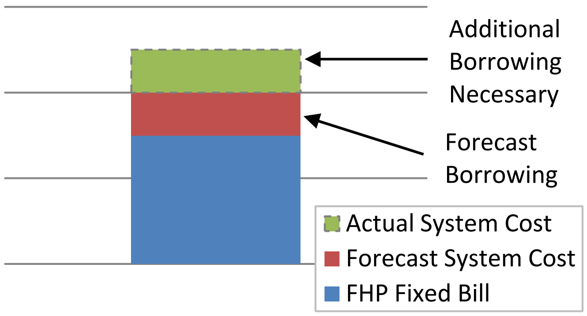
FHP Monthly Bill ($/Month)			After-Tax Impact Compared to Status Quo
Total Base Bill before Taxes		149.78	
Impact of tax-basing social programs		**(2.41)**	**-1.6%**
Financing Entity Financing Impact		**(26.48)**	**-17.7%**
FHP Bill before Taxes		120.90	
Harmonized Sales Tax (HST) Rate	13%	15.72	
Ontario Rebate for Electricity Consumers	**8%**	**(9.67)**	**-5.7%**
Total FHP Bill		126.94	-25.0%

The commodity cost line of electricity bills is made up of two major components: wholesale market costs and the Global Adjustment. Wholesale market costs are the money paid out to generators such as OPG for what they have earned participating in the wholesale electricity market. While most generation must be bid into the wholesale market, virtually all generation in Ontario is either contracted or regulated and thus receives additional compensation for their output beyond the wholesale market price. The Global Adjustment makes up the differences between what generators earn via the wholesale electricity market and their contracted or regulated rate. The cost of conservation programs is also passed on to ratepayers via the Global Adjustment.

We expect that the savings from the financing undertaken by the Financing Entity will appear on residential bills via a reduction in the commodity cost line item.

All electricity consumers who are eligible for the Ontario Rebate for Electricity Consumers (rebate of provincial portion of HST) will be eligible to receive the benefits of the FHP. These consumers are mostly residential customers, but also include farms and some small commercial customers. The Ministry of Energy estimates the 50% of Ontario electricity consumption will be eligible for the program.

Implications of the FHP Structure



If actual electricity system costs are higher than expected, more debt will have to be taken on to maintain bills at the fixed level set out by legislation. Bills will also need to increase faster during the Straight-line Increase Period to maintain borrowing within the Financing Entity's capacity.

Even though the savings from the FHP will be achieved via the Global Adjustment, cost increases beyond forecast increases in other components of the bill will require additional borrowing because the FHP targets fixed total bills. For example, if Toronto Hydro or Hydro One have rates approved that are higher than forecast by the IESO, more debt will be necessary to maintain bills at the fixed level.

Additionally, OPG forecasts generation costs based on a 'weather normal' situation. In reality, weather is different every year. Extreme weather (very hot/cold) is expected to increase system costs, requiring additional borrowing by the Financing Entity.

OPG has analyzed sensitivities on a variety of key electricity system cost drivers including electricity demand, natural gas prices, carbon prices, nuclear refurbishment cost, exchange rates, and delivery charges. If these variables drive electricity system costs higher than expected, additional borrowing will be necessary. However, it is expected that the Financing Entity will be able to manage borrowing within its capacity under the sensitivities analyzed. Appendix 8 outlines the financial implications of these sensitivities.

Implementing the FHP

The Province's proposed legislation will define regulated assets to defer costs, calculate and distribute fair allocation amounts to establish the basis for cost and benefit allocation to future customers, require the Financial Services Manager to establish the Financing Plan for the Financing Entity to acquire the regulated assets and allow their amortization through charges on future electricity bills.

The fair allocation calculation will be established initially by the Province to set out a fair allocation for the costs and benefits of the Province's clean energy initiatives (e.g. gas, wind and solar generation under 20-year contracts that can last for 30-years, conservation programs). The Province has engaged Navigant Consulting to assist in this regard. Based on preliminary estimates, costs from clean energy initiatives to be amortized to future appear to be sufficient to support the planned borrowing to the Financing Entity.

OPG will be appointed as the Financial Services Manager to develop and implement the Financing Plan consistent with the fair allocation calculation. . If subjected to challenge or amended such that the fair allocation calculation cannot support the planned level of borrowing, future borrowing would be curtailed.

May 2, 2017

OPG ACCOUNTING CONSIDERATIONS OF ONTARIO FAIR HYDRO PLAN

Purpose:

The purpose of this document is to summarize the preliminary views of Ontario Power Generation (OPG) on the ability for OPG to consolidate the Financing Entity Trust associated with the Ontario Fair Hydro Plan.

This memo is assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. Note that this assessment is preliminary pending the finalization of the Legislation, the Trust indentures, Regulations, financing structure and other detailed terms, and all related documentary evidence. This assessment will be updated once final documentation is available.

Background:

On March 2, 2017, the Province of Ontario (the Province) announced Ontario's Fair Hydro Plan (the Plan) aimed at reducing electricity bills by 25 percent on average for all residential consumers in the province. As part of the Plan, the Province has proposed financing a portion of the Global Adjustment costs over a longer time period for Regulated Price Plan eligible customers (e.g., residential, farm, small businesses).

On April 13th, the Province requested that OPG consider administering the financing associated with the Plan, because of OPG's participation in the market, regulatory knowledge and the potential ability to consolidate the related financing activities. To undertake this financing, OPG will establish a Financing Entity Trust (the Trust) to finance and administer the Global Adjustment costs through a mixture of external financing and an equity injection from the Ontario Financing Authority. It is expected that OPG will control the Trust for accounting purposes and that its financial position and results will be consolidated within OPG's consolidated financial statements.

Assumptions made to perform accounting analysis which are not yet addressed in Legislation – it is expected that these matters will be addressed in Regulations, Trust documents, and various other agreements:

- The Regulation must require interest, carrying and administrative costs to be paid to the Trust in cash on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs.
- The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.
- The Minister of Energy will have the ability to replace the Financial Services Manger (OPG) if there is a failure to perform. There will be a bifurcation of roles where the Province could not remove OPG as manager/administrator with respect to the existing debt placed by the Trust, but could remove OPG's responsibility/right to prepare the Financing Plan going forward. The ability for the Minister of Energy to remove OPG as the Financial Services Manager should not impact the recoverability of existing intangible assets.

- The calculation of the Fair Allocation Amount will be performed by the Minister of Energy.
- OPG has the ability to appoint and remove the Trustee (or Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust.
- Neither the OEB nor any other party can discretionally reduce the management fee or performance fee except due to a calculation error.
- The margin on the interest rates associated with Tranche B and Tranche C which will be recovered from the ratepayers will be reflective of the risk profile of the debt and the associated market terms.
- The indemnification provided to the Trust by the Minister of Finance on behalf of the Province as described in *Part I – General - Section 5.3 Guarantee, indemnification Protection and assurances* will be subject to terms and conditions in a separate Provincial support agreement. The guarantee is expected to be in place only in the event of a Payment Guarantee Event, such as if the Legislative Assembly of Ontario repeals the Fair Hydro Act or amends the Act in a way that adversely impacts the ability of the Trust to fully recover an intangible asset in order to pay the obligations of the Trust.
- The approval by the Ontario Energy Board of the Financial Services Manager (i.e. OPG's) fees as described in *Part IV – Implementation - Section 14.4 Same, Board Approval* will not allow them to change or limit the management fee structure, but only ensure that it is prudent by ensuring it is calculated in accordance with the Regulations.
- In the event that a different Financial Services Manager is appointed by the Minister of Energy, the IESO is required to continue to make cash payments for interest to the Trust for the existing debt. Principal repayments on existing debt will continue to be repaid by ratepayers to the Trust in accordance with the terms of the issued debt.
- All other items as indicated in *Appendix A.*

Accounting Analysis:

In order to meet the accounting definition of 'control', accounting guidance must be considered. There are no bright lines to determine whether OPG has exposure, or rights, to variable returns from its involvement with the Trust, or whether it has the ability to affect the returns of the Trust through its power over the Trust. Rather, all facts and circumstances are considered when assessing whether an entity has control over another entity.

In order to consolidate the Trust, OPG must be able to demonstrate that it controls the Trust.

Control

An investor controls an investee if and only if the investor has all the following:

a) power over the investee;
b) exposure, or rights, to variable returns from its involvement with the investee; and
c) *the ability to use its power over the investee to affect the amount of the investor's returns.* [IFRS 10, paragraph 7]

Purpose and design of the investee
When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities. [IFRS 10, paragraph B5]

Criteria	Analysis
Purpose and design of the Trust	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
Relevant activities of the Trust and how decisions are made about those activities	<u>Relevant activities:</u> The relevant activities of the Trust are: • To evaluate and make decisions on financing alternatives, duration, and the strategy to minimize financing costs. • To effectively manage funding obtained through the capital markets and be able to make or lose any spread from financing • To provide funding to the IESO in return for an interest in a future cash flow stream • To obtain funding through the capital markets and other vehicles available to OPG to be able to provide the IESO funding. • To make capital and funding decisions required to meet the Fair Allocation Plan objectives as set out in Legislation • To finance the requirements associated with the short-fall amount • To raise debt, pay bond debt holders, and determine capacity for the Trust to raise additional financing <u>Financing Plan (Legislation: Part IV – Implementation)</u> • OPG's plan for managing the assets of the Trust will be dictated through a 'Financing Plan'. • The Financial Services Manager (i.e. the Trust) shall provide the Financing Plan to the Minister. The Financing Plan is expected to follow Principles as stipulated in the Legislation which indicate that the assumptions must be reasonable and that the Trust has the power to determine what is reasonable and cost-effective. The Trust makes all the decisions in determining the relevant activities as listed above. • OPG can amend the Financing Plan at any time without the approval of the Minister. <u>Fair Allocation Amount (Legislation: Part IV – Implementation)</u> • The 'Fair Allocation Amount' ("FAA") is the amount of the deferral for the reference period and includes finance amounts. The current Legislation dictates that the Minister of Energy is to calculate the FAA. • This does not impact OPG's relevant activities in the Trust as OPG's variable returns are based on financing decisions which are not dictated by the FAA. OPG can choose to accept or reject the purchase of the intangible asset which is based on the Fair Allocation Amount.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
	Decisions made and voting rights of the Trust: OPG has the ability to appoint and remove the Trustee (and if applicable Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust. **[NOT YET ADDRESSED IN CURRENT LEGISLATION]** *Voting of members:* Except as otherwise stated, all decisions of the members (if applicable) shall be made by the Trustee who will be appointed by OPG. Termination Rights OPG cannot be removed from its role in the Trust. The Province has the right to remove OPG as the 'Financial Services Manager' for failure to perform. This will not impact debt that has already been issued for which OPG is already managing through the Trust or the recoverability of existing intangible assets. It the right is exercised, it serves to reduce or eliminate the scope of new business activities of the Trust but it does not affect OPG's ability to control the Trust. Should a new Financial Services Manager be appointed, a separate assessment would be made as to which party if any would control it.
Assessment	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees. For the reasons noted above, OPG has control over the decisions to be made about the relevant activities.

Power over the investee	
Criteria	**Analysis**
Identify whether OPG's rights give it the current ability to direct the relevant activities of the Trust (Substantive rights)	See above for relevant activities of the Trust.
Assessment	OPG has the ability to direct the relevant activities of the Trust. OPG can amend the Financing Plan at any time, without approval from the Minister. Further, if the Minister of Energy chooses not to continue with OPG's current Financing Plan, OPG can withdraw its Financing Plan, without impacting the existing debt and related intangible assets that is already in the Trust. The Province would just appoint a new party to participate in future securitizations and OPG would continue to manage the debt that already exists in the Trust. If future financing transactions are with a different SPV, a separate consolidation analysis would be prepared at that time as to which party if any would consolidate the SPV.

Exposure or rights to variable returns	
Criteria	**Analysis**
Dividends, other distributions of economic benefits from an investee and changes in the value of the investor's investment in that investee [IFRS 10, paragraph B57(a)]	OPG is expected to realize management fees from its activities with the Trust.
Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee [IFRS 10, paragraph B57(b)]	**[NOT YET ADDRESSED IN CURRENT LEGISLATION]** OPG has exposure and rights to variable returns from the Trust in the form of the following: • The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns. • OPG, through ownership of the most subordinated debt, is exposed to risk of non-collection. Given that the program is expected to run until 2047, this 30 year time period results in uncertainty about the future collection of OPG's amount at risk. OPG and the OFA (5% out of 44% contribution) would be the last parties to get paid in the event that the program stops running due to a change in Government, if electricity demand is not high enough to allow for collection from ratepayers in a timely manner, etc. The end date of 2047 that is prescribed in the Legislation results in uncertainty toward whether this program will continue and whether OPG will have collected its amount at risk at that time. • In the event that there is a market disruption whereby OPG is not able to obtain debt from the financial markets (e.g. due to a recession), the Province will provide funding in the event that OPG wishes to continue purchasing intangible assets from the IESO. This is considered to be a protective right as it does not impact the relevant activities of the Trust, but is designed to protect both parties and does not give either party more or less power over the Trust. It is designed to allow OPG to keep purchasing intangible assets if it wishes to. • Protective rights are typically held to prohibit fundamental changes in the activities of an investee that the holder does not agree with and usually apply only in exceptional circumstances (i.e., upon a contingent event). This is true for this right as it is only applicable if there is a market disruption and the Trust is not able to obtain financing from external markets. Further, the fundamental activities of the Trust would change if it were not able to obtain financing from external markets.
Returns that are not available to	• OPG will have synergistic benefits from combining operating

Exposure or rights to variable returns	
other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets [IFRS 10, paragraph B57 (c)]	functions with the Trust given its extensive knowledge on the market and current regulatory knowledge.
Assessment	To determine which party is the most 'at risk' in the event that the loans default, expected loss rates were obtained from Moody's and DBRS. Using the *Moody's Investors Service – Loss Given Default for Speculative Grade Companies* dated December 4, 2015, the 4-year Idealized Expected Loss ranges from 0.00% for a triple A rated bond to 0.30% for an A3 rated bond. DBRS Expected Loss Ratings give an indication of the expected loss of a loan portfolio. As per a November 2016 publication, the 10-year expected loss rates range from 0.1% for a AAA rated bond to 1.7% for an A (low) rated bond. Given that OPG's subordinated debt is equal to 5% of the total debt, which is higher than the default rates above, 100% of the risk is with both OPG and the OFA since they are the last parties to get paid should there be any default with the debt. OPG is also exposed to variable returns from the Trust from its performance on decisions made on financing alternatives, duration, and the strategy to minimize financing costs through the variable fee component of the management fee. Therefore, OPG has the exposure to variable returns from the Trust.

Ability to use power to affect returns	
Criteria	**Analysis**
Ability of investor to use its power to affect the investor's returns from its involvement with the investee	OPG needs to have both power over the Trust (i.e. as a Principal, not an agent), exposure or rights to the variable returns from the Trust, and the ability to use its power to affect OPG's returns from its involvement with the Trust OPG has the ability to use its power over the relevant activities of the Trust to affect its returns from its involvement with the Trust through the variable fee component.

Ability to use power to affect returns	
	Further, the Trust's ability to use its power to affect returns is in a manner that is consistent with being a principal. See *Appendix B* for Principal-Agent analysis.
Assessment	OPG has the ability to use its power to affect returns of the Trust.

Conclusion:

Based on the current **[May 1, 2017]** draft of the legislation, the conditions to ensure the ability of OPG to consolidate the operations of the Trust have not fully been reflected. As noted in Appendix A, several conditions must be evident in the Regulations, Trust documents, and various other agreements which are not yet drafted and therefore not yet available for our review and assessment. In OPG's assessment, while no current clause of the Legislation would hamper the ability to effect a consolidation within OPG Inc.'s financial statements, there are several key conditions for consolidation that are currently not present within the Legislation. On the assumption that future Regulations, Trust documents and various other agreements fully capture these operating conditions, and that no new conditions that would conflict with OPG's control of the trust are introduced, OPG believes that consolidation of the Trust is supportable.

APPENDIX A:

Terms necessary for OPG to consolidate the Global Adjustment Trust

Note that these are assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. These are subject to change as subsequent drafts of the Legislation are issued.

Legend:

✓ - **Addressed by the Legislation drafted May 1, 2017**

RT – **Not addressed by Legislation and must be addressed in Regulations, Trust Documentation or various other agreements**

Ω - **Will not be addressed in Legislation/Regulations or Trust but is the intended plan**

Issue	No.	Requirements
Directive	1 ✓	The Trust must be undertaken by OPG as a business initiative on its merits. A Shareholder Directive is to be limited to direct OPG to investigate the option of establishing a Trust vehicle to administer, finance and operate the Global Adjustment plan and the operation of that Trust and the control, risk and rewards of that Trust will determine its consolidation into OPG as a business enterprise. ***MET - The Province will not direct OPG to participate in the Fair Hydro Plan. A letter was issued from the Minister of Energy to OPG on April 13th requesting OPG's involvement in the implementation of the Fair Hydro Plan. OPG's Board Chair responded to the Minister on April 18th committing OPG to work with the IESO and OEB to develop a plan. OPG will have the option to prepare, implement and amend a financing plan (in accordance with principles set out in legislation) and propose the adoption of such plan as the 'Financing Plan'. OPG will have the right to withdraw its financing plan at any time.***
Trust	2 RT	The Trust should not operate in a predetermined way such that OPG does not have decision-making authority over the Trust's ongoing activities after its formation (i.e. should not operate on 'autopilot'). ***OPG will be the sole unit holder of the Trust. All decisions over the relevant activities of the Trust (as described above) will be made by OPG.***
	3 RT	OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the Trust. ***OPG will be the sole unit holder of the Trust. The Province will be involved in the Board of Trustees, but OPG is expected to have the majority vote.***

Issue	No.	Requirements
	4 **RT**	The Province cannot have the right to veto OPG's decisions about the relevant activities of the Trust. OPG must have the power over the relevant activities of the Trust and be compensated. The relevant activities of the Trust include (but are not limited to) the evaluation and decisions on financing alternatives, duration, and the strategy to minimize financing costs. OPG must have the power to establish operating and capital budgets of the Trust. ***OPG will have the ability to make decisions about the financing alternatives, duration, and the strategy to minimize financing costs. OPG will have the power to establish operating and capital budgets of the Trust with no veto right by the Province.***
	5 **RT**	OPG must have the power to determine or change operating and financing policies of the Trust, which will affect the variability of risks and returns. ***The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.***
	6 **Ω**	The Province or its agencies must not directly or indirectly fund (through debt or equity) more than 50% of the following: a. The Trust b. The most subordinated debt of the Trust ***See below for financing structure.***
	7 **Ω**	OPG must own at least 50% of the most subordinated debt and must be no less than 5% of the debt of the Trust. Such ownership must be financed entirely by OPG through operating cash flows or external debt, without assistance from Provincial sources. ***See chart in Point 6 above***.

Financing structure (in Point 6):

	Risk Profile	Source	% of Total Funding Requirement
Tranche A Senior Debt	the least risky	Capital Markets	51%
Tranche B Sub Debt	In between A&C	OPG via OEFC	39%
Tranche C Sub Debt	the most risky	OPG via OEFC	5%
		OPG via Capital Markets	5%

Issue	No.	Requirements
	8 **RT**	OPG must have the ability to earn variable returns by exercising its authority, which shall be accomplished as follows: a. The cash flow from the restructured asset shall include interest determined based on a relevant benchmark that is appropriate relative to the restructured asset, plus an appropriate margin consistent with the relevant market and other risks ***The cash flow from the restructured asset will include interest income that is equal to the interest expense (i.e. interest expense is passed back to the ratepayers). The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	✓	b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the Trust to achieve a more favourable return compared to the benchmark for interest on the restructured asset ***OPG will determine the financing strategy through the proposal of its 'Financing Plan'. The 'Financing Plan' will only be required to follow general Parameters and Principles as set forth in the Legislation but funding decisions will be made entirely by OPG. The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	Ω	c. The Trust shall establish classes of liabilities (senior, subordinated and the most subordinated). The classes would allow the Trust to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity. ***OPG's portion of the most subordinated debt will be limited to a reasonable level. If it is determined that OPG's portion is not at a reasonable level, OPG has the option to withdraw its Financing Plan.***
	RT	c. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the restructured asset, or any residual risk of restructured asset. The targeted return of the subordinated liability should be reflective of the underlying risks and compensate holders for active management that would be required.

Issue	No.	Requirements
		OPG will be able to capture the pricing difference between cost of financing and benchmark for interest through the performance fee which is described in point 5) above and the 'Exposure or rights to variable returns' section above.
	Ω	d. OPG should participate in the detailed design of the above and the Trust documentation to ensure that it has substantive power and variability, which will allow OPG's Board of Directors to evaluate the opportunity as a business initiative instead of through a shareholder directive. ***OPG will be involved in the Trust documentation.***
	RT	Defined Forced Majeure for emergency events (e.g. unlikely credit market event or disruption where it is not possible to borrow from the market at a reasonable rate), OFA may provide bridge financing beyond the designated percentage for a defined period. ***This will be structured through a separate indemnification agreement. This is not expected to impact consolidation of the Trust because this is seen as a protective right which is only in affect when a contingency arises and not as a result of the relevant activities of the Trust.***
Legislation	9 ✓	The Legislation must require interest, carrying and administrative costs to be paid to the Trust on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs. ***Under Part III – Clean Energy Adjustment – Section 8.3 Terms, of the Legislation, the expectation is that the Legislation will allow for interest payments to be paid to the Trust on a monthly basis in cash. The Trust will not accrue interest to the current intangible asset balances but this interest amount could form part of future intangible assets that are purchased from the IESO.***
	10 RT	The Legislation must dictate the manner in which the restructured asset would be determined, collected, and the period of collection, so that the determination of the restructured asset will not be subject to the Province's decisions on an ongoing basis, but determined based on a formula. Alternatively, the Legislation may allow for an adjustment to the pre-determined deferral formula based on specific parameters that would limit the adjustment to the restructured asset. Adjustments beyond the specific parameters would require approval by the Board of Trustee. **The Regulations are expected to dictate the 'Fair Allocation Plan' which will be based on high level Principles and Parameters of the Plan, including the attribution methodology. The Legislation or Regulation determines the following principles:** • **25% Reduction (June 1, 2017) where the average bill will**

Issue	No.	Requirements
		reduce by 25% including of HST and social programs noted above • **Inflation Period (November 2017 – April 2022) where bill increases are capped at inflation** • **Straight-line Increase Period (May 2022 – April 2027) where bills increased at a straight-line rate (i.e., 8% per year) which is set so that borrowing will not exceed the Trust's capacity.** • **Amortization Period (May 2027 – April 2047) where debt built up over the previous periods is repaid by ratepayers.** **OPG will determine the manner in which the intangible asset, once purchased from the IESO will be collected and the period of collection.** **The recoverability of the existing intangible assets cannot be impacted by the Province.** **Although the Province may determine the Principles and Parameters around the 'Fair Allocation Plan', it does not impact the activities of the Trust once OPG has purchased the intangible asset.**
	11 **RT**	The Legislation must be written to avoid legal or constitutional challenges and be irrevocable to reduce the cost of borrowing and with a specific formula which determines the deferral amount. **See above.**
	12 **RT**	The spirit of the above terms should be reflected in the Trust Indenture Agreement as well as Legislation, wherever possible. ***Trust Indenture and Regulations still outstanding.***

APPENDIX B:

Link between power and returns: principal-agency situations

The third criterion for having control is that the investor must have the ability to use its power over the investee to affect the amount of the investor's returns. When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether the decision-maker is a principal or an agent to determine whether it has control. This is because if the decision-maker has been delegated rights that give it power, the decision-maker must assess whether those rights give it power for its own benefit, or merely power for the benefit of others. As an agent cannot have control over the investee, it does not consolidate the investee. A principal may have control over the investee, and if so, would consolidate the investee.

A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:

a) the scope of its decision-making authority over the investee

As discussed above, OPG has decision-making authority over the Trust and its relevant activities. The Province has no right to determine what sort of funding decisions OPG should make to fund the intangible assets that they will purchase and OPG can choose not to purchase future intangible asset purchases.
Terms and Conditions to support this point: 1, 2, 3, 4, 5

b) the rights held by other parties (paragraphs B64–B67).

There are no substantive removal rights held by the Province for debt that already exists in the Trust.

Terms and Conditions to support this point: 3, 4, 5

c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs B68–B70).

See section on 'Exposure or rights to variable returns' above.

Terms and Conditions to support this point: 6, 7, 8, 9

d) the decision maker's exposure to variability of returns from other interests that it holds in the investee (paragraphs B71 and B72).

See section on 'Exposure or rights to variable returns' above.

OPG will receive a 44% equity injection from the Province of Ontario, indirectly through the Ontario Financing Authority. Given that currently, the majority (currently 51%) of the Trust debt will be from External Markets and not the Province, it can be argued that OPG did not receive the majority of its interest in the investee as a contribution or loan from the Province. This shows that OPG is a principal, not a de-facto agent.

Terms and Conditions to support this point: 6, 7, 8, 9

Conclusion: OPG is not an agent for the Province as the arrangement does not provide for the Province to directly absorb any variability associated with the structure. If the Province decides to intervene at a later date due to evolving market conditions, an assessment would be made at that future date.

Analysis on whether OPG is an agent for ratepayers

OPG is not an agent for the ratepayers because OPG has substantive exposure to risk of loss of its own funds. The ratepayers do not have any of their own funds in any of the subordinated tranches and further, no decision making authority is delegated to the ratepayers relating to the relevant activities of the Trust.

Analysis on whether OPG is an agent for the IESO

OPG is not an agent of the IESO because the IESO faces no continuing risk of loss after sale of the intangible asset to OPG.

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The Special Committee of the Board of Directors
Ontario Power Generation Inc. (the "Company")
700 University Avenue
Toronto, ON M5G 1X6

May 2 2017

Dear Sirs/Madames:

This letter is being issued to the Special Committee to assist them in their evaluation of management's analysis of the application of International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB")) to the specific transaction described in the Company's memorandum entitled *OPG Accounting Considerations of Ontario Fair Hydro* dated May 2 2017, herein referred to as "the Management Memorandum". We are issuing this letter in our role as auditors of the Company for the year ending December 31, 2017. As the Province consolidates OPG on an IFRS basis, this letter pertains solely to management's IFRS analysis as contained in the Management Memorandum.

We have read the Management Memorandum and we agree with management's analysis therein, subject to all of the assumptions and limitations identified therein. Specifically, we concur that the existing legislation, along with the yet undrafted Regulation and special purpose vehicle (TRUST) documents, and various other agreements assuming they include the required criteria that Management has identified as outstanding in its Appendix A, would be sufficient to support consolidation of the TRUST with OPG Inc.

Additionally, we specifically refer you to the section entitled "Conclusion" in the Management Memorandum, which indicates that their analysis is based on draft legislation as well as their assumptions regarding the terms and conditions of certain contractual arrangements and other documentary evidence that is not yet drafted. Therefore, the Management Memorandum will be required to be updated to reflect the final contents of the legislation and other relevant contractual arrangements and documentary evidence. We will review the updated Management Memorandum once it is available, and update you on our viewpoints once our review of such updated Management Memorandum is completed.

The scope of this letter and any views expressed herein are limited to the transactions, facts, circumstances and assumptions provided to us by management or the Company as described in the Management Memorandum. If such facts, circumstances or assumptions differ, our conclusions may change.

We have not performed an audit or a review of the Management Memorandum. Additionally, we have not performed an audit as of any date or for any period subsequent to December 31, 2016.

The ultimate responsibility for the proper accounting treatment under IFRS and US GAAP rests with the Company.

We have not been asked for, nor do we express, an opinion on the tax consequences of the transactions described herein.

The accounting for such transactions could be affected by actions of the International Accounting Standards Board, the IFRS Interpretations Committee, the Ontario Securities Commission, or other regulatory bodies. Any such actions occurring prior to the finalization of the 2017 IFRS consolidated financial information will be required to be analyzed by management, and such analysis will be reviewed by us in the context of the audit procedures we will perform on the consolidated IFRS financial information for the year ending December 31, 2017.

Our work does not include the provision of legal advice and we make no representations regarding questions of legal interpretation of any possible structure or strategy. We make no representation regarding the sufficiency of our work for any purpose.

This report is intended solely for the information and use of the Special Committee, Board of Directors and management. We understand that a copy of this letter may be provided to the Province of Ontario, the Independent Electricity System Operator, and/or the Ontario Energy Board. It is not intended to be, and should not be, used by anyone other than these specified parties.

This analysis, or portions thereof, should not be referred to or distributed to any other person or entity, other than those noted in the paragraph directly above. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document.

Yours sincerely

Tracy E Brennan
Partner
416-943-2615

Appendix 5 - Financing Plan

Financing Plan

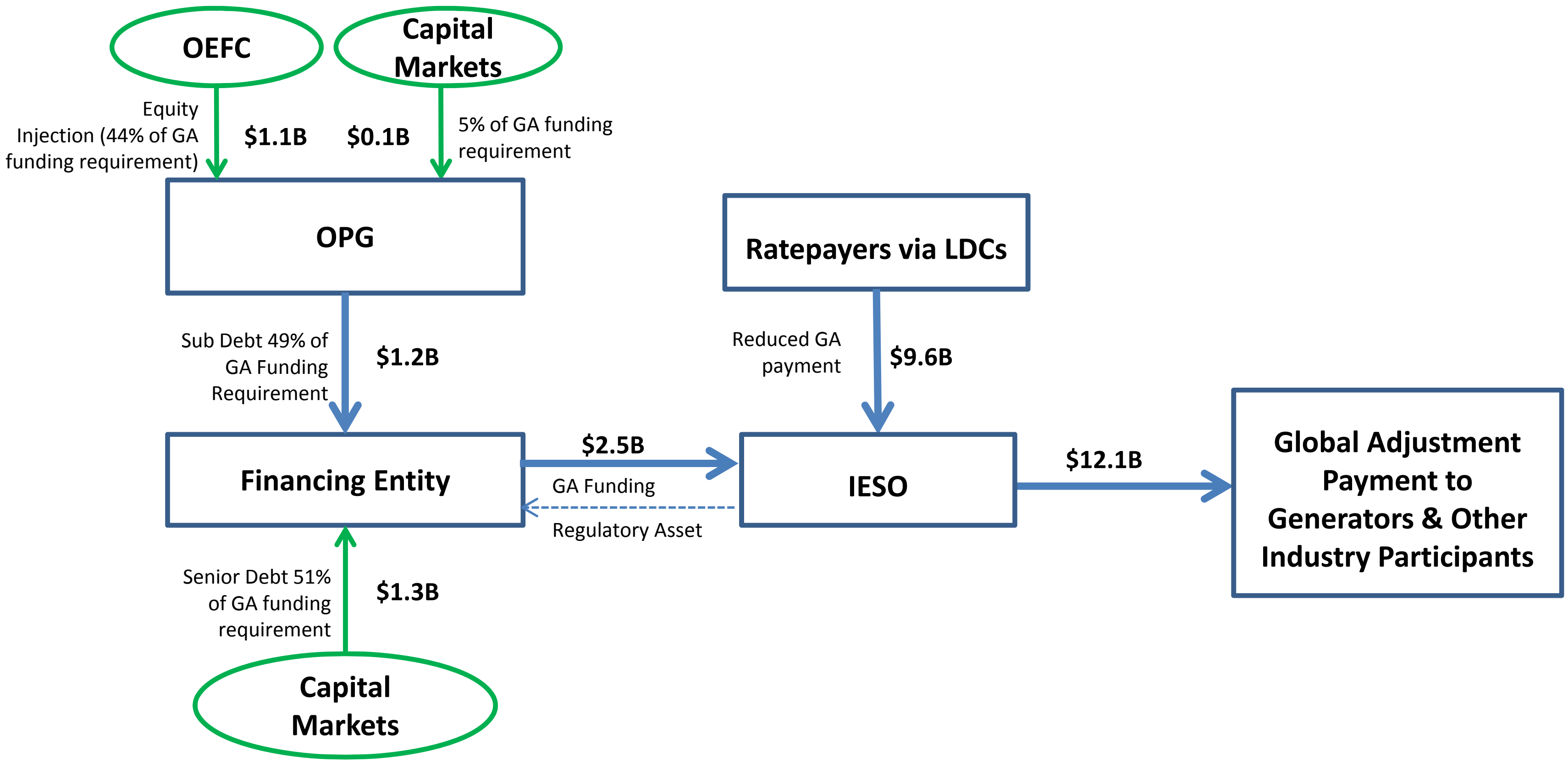
Highlights:

- Legislation as currently drafted provides for a framework to implement the Fair Hydro Plan Act:
  - (i) to allow flexibility in OPG's corporate structure and to enable OPG to raise financing through public offerings of debt
  - (ii) for a regulatory asset consisting of the right to recover over time the amount of the Global Adjustment being deferred, together with interest and other costs
- Regulations and principal agreement need to be negotiated and agreed to in order to provide a completely financeable program
- A Financing Entity will be set up that will hold the claim on future customers and the debt issued to fund the payment to the IESO for the regulatory asset
- The GA financing platform will be developed to access both the Canadian and US markets in order to access best pricing and flexibility
- OPG will provide services to the Financing Entity including financings via a financial service and management agreement

ONTARIO POWER GENERATION

Financing Plan – Structure

Illustration based on $2.5B GA Funding



Financing Plan - Components

- Debt components are:

	Risk Profile	Source	% of Total Funding Requirement
Tranche A Senior Debt	the least risky	Capital Markets	51%
Tranche B Sub Debt	In between A&C	OPG via Province	39%
Tranche C Sub Debt	the most risky	OPG via Province	5%
		OPG via Capital Markets	5%

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Financing Plan – Rationale

The rationale for the structural debt percentages are:

- **Minimum of 51% from the Capital Markets**
  - Required from an accounting treatment perspective in order to consolidate the Financing Entity on OPG's financial statements, otherwise the debt is consolidated with the Province
  - Accounting treatment also requires OPG to direct the activities of the Financing Entity, and that the Province not directly or indirectly fund (through debt or equity) more than 50% of the Financing Entity to allow for OPG consolidation
- **Minimum Provincial equity contribution of 44%, up to 49%**
  - Help to is avoids the potential risk of a credit downgrade from the rating agencies as a result of the incremental debt consolidated on OPG financial statements negatively impacting credit metrics (Funds from Operations/ Debt)
- **Minimum OPG Investment of 5% from the Capital Market**
  - OPG requires a minimal amount of debt at risk financed through OPG operating cash flows or capital market debt. To demonstrate control of the Financing Entity OPG must own >=50% of the most subordinated debt and targeted to be no less than 5% of the total debt of the Financing Entity
  - The Province must not directly or indirectly fund (through debt or equity) more than 50% of OPG's investments in the most subordinated debt of the Financing Entity to lessen the materiality of OPG's debt at risk

Financing Plan – Other Elements

Other Structural Advantages:

- **Financing Entity:**
  - Is ring-fenced from OPG as a single purpose entity with no other operations that could add risk to the OPG entity
  - Is targeting a higher credit rating than OPG and therefore will have lower financing costs than OPG in the Capital Markets
  - Will record funding revenue reflecting the growth in the deferred asset value which will mitigate the negative impact on OPG’s credit rating from the debt consolidation
  - Allows for flexibility to fund debt tranches with different terms, contractual consideration and subordination
  - Subordination will play an important credit enhancement role for the senior debt, and could act as a buffer or first loss of capital in any credit event
- **Operational attributes:**
  - OPG is the Financing and Services Manager for the Financing Entity and direct its activities
  - Short term debt can be warehoused in the Financing Entity until OPG accesses the Capital Markets
  - OPG will be independently accessing the public debt markets on a commercial basis
  - Opportunity to access the US market as appropriate

Financing Plan – Overview

The Financing Plan has two main phases:

- **Net Borrowing Phase (2017-2026)**
  - During this 10 year period the debt created by the deferral of electricity charges will accumulate, together with associated interest costs & other fees, that in combination will establish the regulatory assets.
  - Monthly the Financing Entity will purchase the regulatory assets from IESO (purchase is ~$200M) as follows:
    - o 51% through external capital markets (~$102M per month)
      - – Initially the financing plan will access liquidity facilities at the Financing Entity level to fund and warehouse the monthly asset purchase requirement
      - – On a quarterly basis when the accumulated monthly funding has reached a certain level ($300M), public debt will be offered to the market
    - o Up to 49% subordinated debt in OPG
      - – 44% funded through OPG via equity injections from the Province (~$88M/ month)
      - – 5% funded through OPG via the capital markets (~$10M/ month)
  - Cash interest will be paid based on the lender agreements. The interest costs will be added to future borrowing requirements, and do not flow through to consumers during this period

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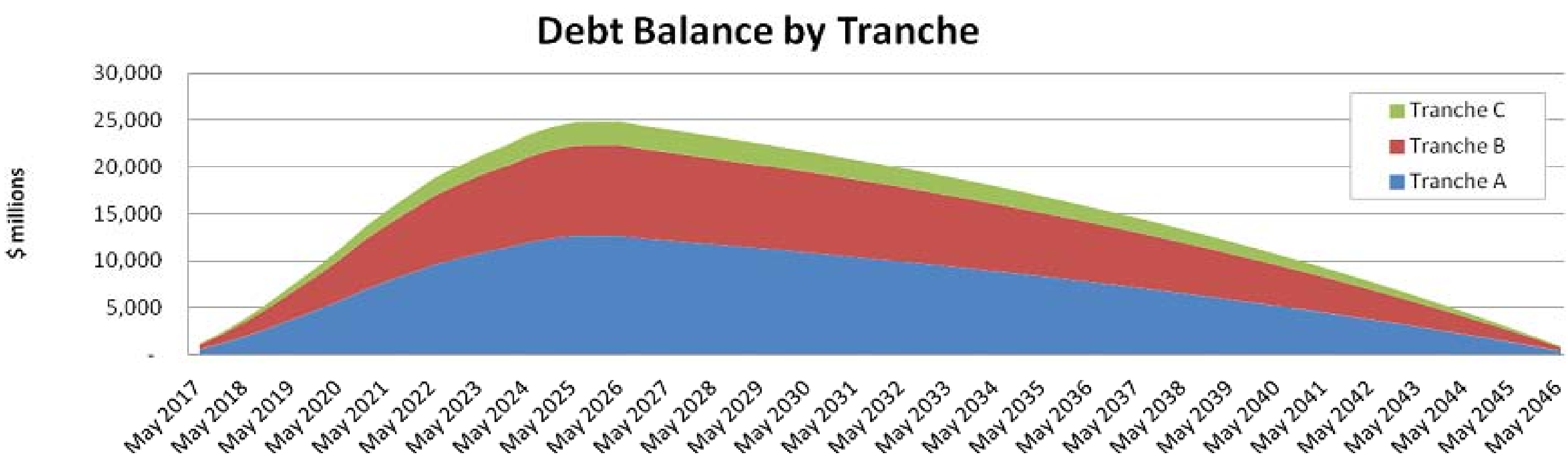
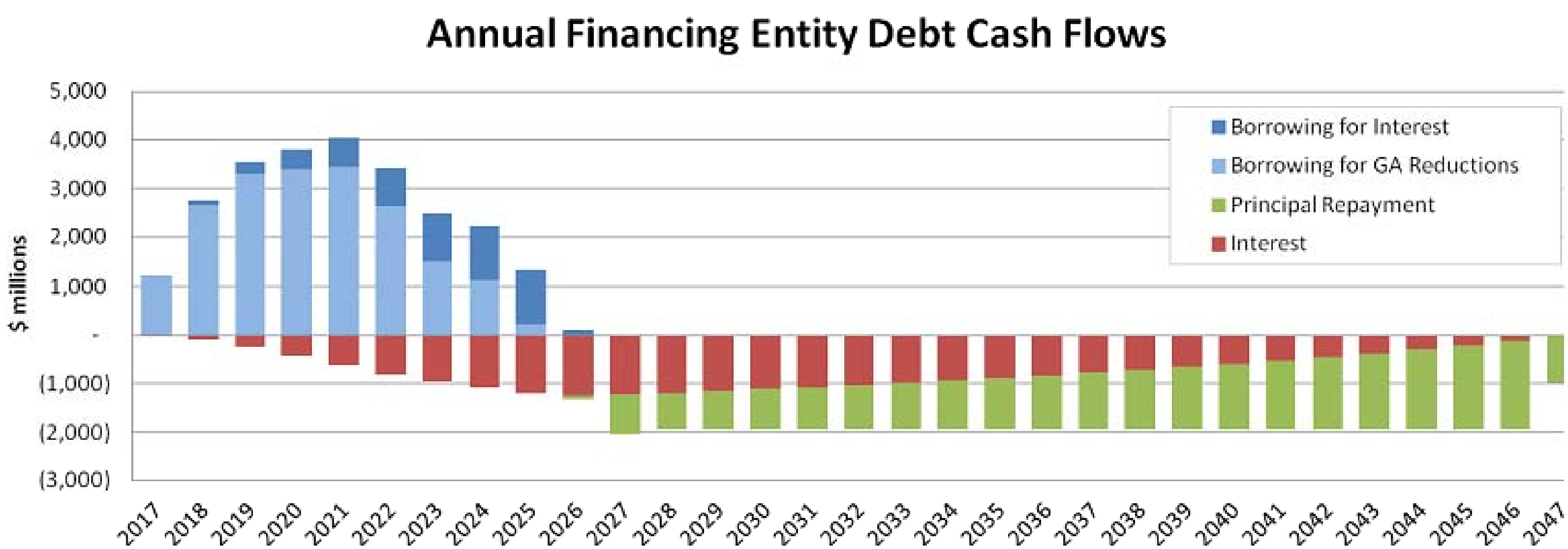
Financing Plan – Program Overview

- **Debt Amortization Phase (2027-2046)**
  - Starting 2027, the accumulated debt created by the deferral will be recovered and paid down by 2047
  - Similar to mortgage style debt payment, a combination of principal and interest will be paid to lenders during this 20 yr period
  - Financing Entity structure continues until all the debt is repaid
  - Target to keep the charge paid by ratepayers during the amortization period to less than 10% of a customers bills to meet credit rating agency guidelines

Debt Profile & Cash Flows





Financing Plan – Funding Alternatives

Key Considerations

- There are several potential funding sources that can be considered to structure the overall financing program, including securitization (issued in Canada or the U.S.), bonds, bank financing, and subordinated debt

Short Term	
ABCP Conduit	▪ R-1(high)/P-1 credit ratings required from DBRS and Moody's (limited market capacity if these ratings are not achieved) ▪ Requires periodic take-outs to repay warehouse funding; take-out risk needs to be addressed as amortization of debt currently not contemplated to commence until after year 10
Bank	▪ No external rating required ▪ Take-out risk needs to be addressed as amortization of debt currently not contemplated to commence until after year 10
Long Term	
Canadian Term ABS	▪ AAA ratings required from at least two of DBRS, Moody's, S&P or Fitch (limited market capacity if these ratings are not achieved) ▪ Tenors > 10 years to be explored
Canadian Bond	▪ This type of financing has not been tested in the Canadian market ▪ AAA ratings not required to access the market ▪ Provides access to broadest investor base in the Canadian market
US Term Debt (ABS/Bonds)	▪ Proven market for securitization and higher market capacity available than Canadian Term ABS ▪ Ratings required from at least two of S&P, Moody's or Fitch (AAA required for Term ABS) ▪ Requires cross-currency swaps
Subordinated Debt	▪ Nature of subordinated debt, repayment terms/flexibility and contingent Provincial support applicable to subordinated debt will impact pricing ▪ Quantum of subordinated debt creates equity like thickness and may serve as a credit enhancement for the senior debt

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Indicative Pricing Consideration

Indicative Pricing Considerations

- Although all of the debt issued by the trust is expected to be afforded the same level of protection including a provincial guarantee, a higher return on the subordinated debt (sub debt) would be required to compensate for incremental risk to the extent:
  - The rating agencies attribute a lower rating to the sub debt relative to the senior debt because of its ranking in the cash flow waterfall
  - The ratings of senior debt need to be credit enhanced by all or a portion of the sub debt as follows:
    1) Flexibility to defer charges to rate payers and hence extend the expected duration of the sub debt to manage the total amount charged to rate payers as a proportion of the total bill during the recovery period – could result in non repayment by 2047 if a hard cap is included
    2) Defer principal payments on certain classes of sub debt until more senior notes are fully repaid

Feature	Tranche B Subordinated Debt	Tranche C Subordinated Debt
	Explanation	**Explanation**
Credit Risk	Credit enhancement to Tranche A (senior debt)	Credit enhancement to Tranche A (senior debt) Act as first "loss absorber"
Duration/Tenor Premium	Same duration as Market Notes	Same duration as Market Notes
Certainty of timing of payments	Same as Market Notes but lower in the waterfall	Some additional volatility in timing of payments, but trued-up every 6 months
Liquidity Premium	Issue size expected to be similar to senior debt	Relatively small amount which will have less liquidity

Indicative Pricing Consideration

Indicative Pricing Considerations

- Credit spreads for traditional benchmark bullet securitizations in Canada are shown in the table below
  - Amortizing structures and non-traditional asset classes typically carry a premium

	AAA	AA	A	BBB
3Y	65-70bps	95-100bps(+30-35bps)	135-140bps (+70-75bps)	185-190bps (+120 -125bps)
5Y	75-80bps	105-110bps(+30-35bps)	175-180bps (+100 -105bps)	225-230bps (+150-155bps)
7Y	80-90bps	120-130bps(+40-50bps)	180-190bps (+100-110bps)	250-260bps (+170-180bps)
10Y	90-100bps	130-140bps(+40-50bps)	190-200 bps (**+100-110bps**)	290-300bps (**+200-210bps**)

- Given the uncertainty around the legislation/regulation and contractual agreements, subornation structure is required in order for the trust to be rated at AAA level.
- In the base case, it's assumed Tranche A is rated at AAA; Tranche B is rated at A; Tranche C is rated at BBB
- The rationale for pricing Tranche B sub debt at A level is:
  - Tranche B sub debt should be priced at least one notch lower than Province of Ontario's senior debt (AA-/A+), given its subordination feature
  - Credit spread between A & AAA 10yr bullet issuance is 100-110bps, amortizing structure and longer tenor would require additional premiums (~30bps)
- The rationale for pricing Tranche C sub debt at BBB level is :
  - Its return expectation is more akin to equity as opposed to debt
  - There were precedents of similar utilities issuance in the U.S., in which cases utilities provided "reserve contribution" and the associated financing charge was based on utilities' WACC
  - Credit spread between BBB & AAA 10yr bullet issuance is 200-210bps, amortizing structure and longer tenor would require additional premiums (~30bps)

Final ratings depend on legislation/regulation and contractual agreements

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Indicative Pricing

- Estimated indicative average pricing over the life of the program using the Senior Tranche A pricing of 4.25% (based on the Projected Province long bond rate of 4% plus a 25 basis points premium to reflect the amortizing structure)
- For comparative purposes current pricing using the Province long bond rate of 3.0% (plus the same 25 basis points premium) has been included to reflect the current low interest rate environment
- The base case assumption is a rating for the Senior Tranche A of AAA, and ratings for Tranche B of A, and Tranche C of BBB

	Risk Profile	Source	% of Total Funding Requirement	Average Pricing	Current Pricing
Tranche A Senior Debt	the least risky	Capital Markets	51%	4.25%	3.25%
Tranche B Sub Debt	In between A&C	OPG via Province	39%	5.5%	4.5%
Tranche C Sub Debt	the most risky	OPG via Province	5%	6.5%	5.5%
		OPG via Capital Markets	5%	6.5%	5.5%

ONTARIO POWER GENERATION

Appendix 6 - Investment Plan

Investment Plan - Overview

OPG's investment in the Financing Entity will be up to 49% of the total financing requirement:

- The investment will consists of two components (i) 44% equity from the Province and, (ii) 5% OPG subordinated debt from the Capital Markets
- The need to consolidate the Financing Entity on OPG's financial statements means there is a requirement to fund the investment through equity rather than debt to preserve OPG's credit metrics
- A low cost of funding from the Province via equity and a positive spread on the debt loaned to the Trust is beneficial for the structure and the net income to be recognized by OPG
- The subordinated debt benefits from being funded on short term basis initially, and provides repayment flexibility in the public debt market as needed

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Investment Plan - Equity Injection

The Province's Equity Investment :

- OPG will amend its Articles to create an additional class of shares – Class A Shares – which will be non-voting and redeemable at OPG's option
- The Province will subscribe for 44% of the total funding requirement (approx $11B) by way of the Class A Shares and OPG will on-lend the funds to the Financing Entity; 39% as senior debt and 5% as subordinate debt
- The Province will approve the planned injections of equity based on a rolling two year estimate with yearly updates, consistent with OPG business planning process
- OPG will have the right to repay equity to the Province, through exercise of its right to redeem the Class A Shares, as principal repayment of the subordinated debt is made commencing in 2027
- Redemption value of the Class A Shares to be based on book value on the redemption date, i.e., the equity value per Class A share at the end of the prior financial quarter as set out in OPG's financial statements

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Investment Plan – Funding

OPG's funding of the investment (up to 49%) will occur as follows:

Equity:

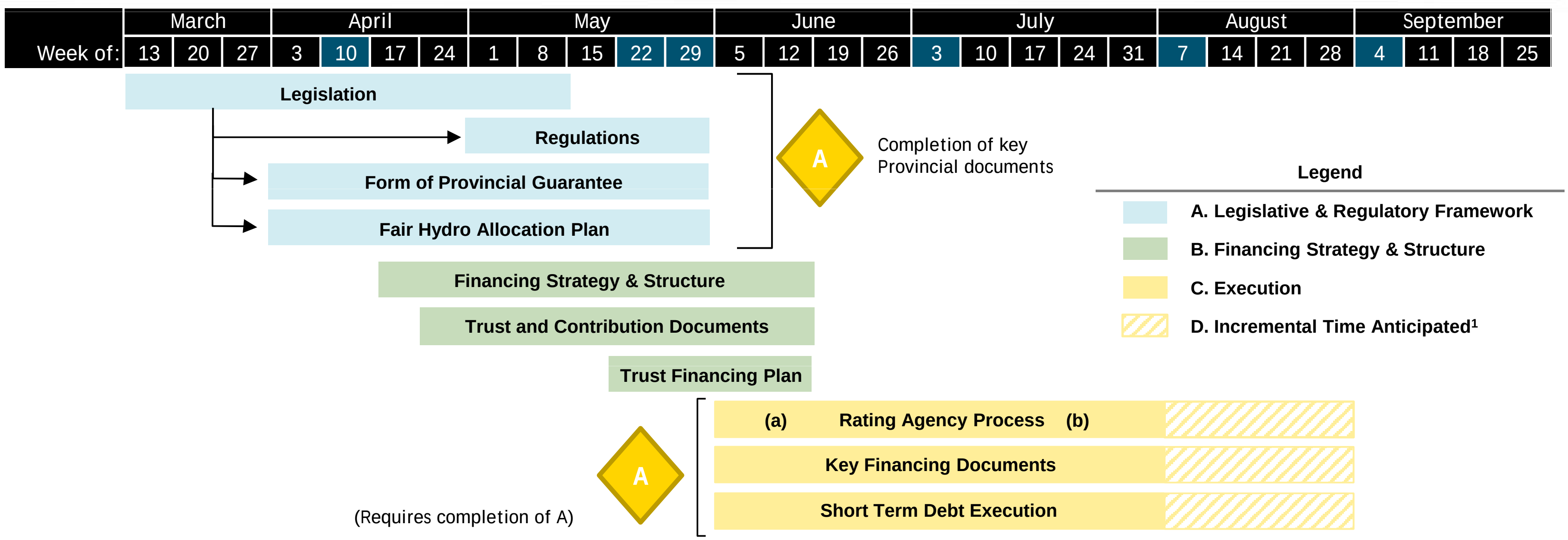
- The mechanism to implement the Equity Injection Plan will be based on monthly equity injections reflecting funding requirements of the Financing Entity for GA deferral amounts
- OPG will issue Class A Shares to the Province monthly at a value per share equal to their book value, as determined from OPG's quarterly financial statements, with the initial shares issued for a value to be determined

Subordinated Debt:

- OPG's total investment in the Financing Entity (5% of total amount), is estimated at ~$1.5B (~$150M per year)
- OPG will utilize short term financing on a monthly basis and take out bonds once the cumulative short term funding reaches certain levels
- OPG intends to establish a public debt platform in support of this bond funding requirement
- This short term financing mechanism is consistent with the IESO monthly billing cycle, as well as the monthly purchase & sale of regulatory assets in between the Financing Entity & IESO

Critical Path Flow Chart – Short Term Debt Execution

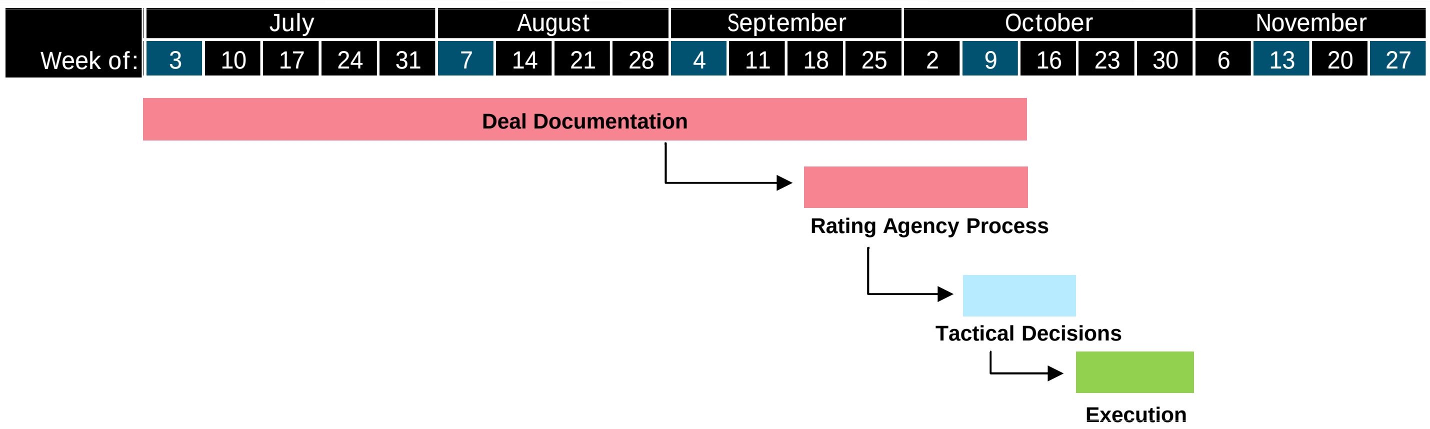
Appendix 7



Master Timeline Item	Comments
A. Legislative & Regulatory Framework	• Fair Hydro Act, regulations and form of Provincial Guarantee are critical to the overall financing strategy, structure and proceeding to engage the rating agencies in any meaningful discussions • The Fair Hydro Allocation Plan is required to determine the target amortization profile and Past-Over-Charges which will effectively establish a cap on the program
B. Financing Strategy & Structure	• Determining the optimal financing strategy involves several key elements including determining the Trust structure and the structure of OPG's sub debt; initial rating agency feedback will taken into consideration • The Trust Financing Plan will be very important to the rating agencies in assessing the merits of the financing approach
C. Execution	• Preliminary rating agencies meetings will occur in early June once critical path items in "A " are finalized or sufficiently advanced with a degree of certainty (a) • Formal rating agencies meetings will occur mid-July once critical path items in "A" and "B" are complete and the key commercial/transaction agreements are well advanced (b)
D. Incremental Time Anticipated	• A typical securitization transaction on a known asset class with one counterparty that has previous experience in securitizations can be completed in 6-8 weeks • A longer timeline is anticipated for this transaction given the unique nature of the assets being securitized and the multiple stakeholders (including their counsel) who will likely review and comment on the documentation

[1] Delay could be longer than indicated

Critical Path Flow Chart – Long Term Debt Execution



Legend

- E. Deal Documentation
- F. Tactical Decisions
- G. Execution

Master Timeline Item[1]	Comments
E. Deal Documentation	• To maintain maximum flexibility for the financing program, deal documentation will concurrently be developed to access the Canadian and U.S. term debt market (e.g. supplemental indenture, hedging documentation, offering memorandum/marketing documents, etc.) • To obtain long term debt ratings, an incremental ratings process will be undertaken by the rating agencies (even if the same agencies rate the short term debt); rating agencies will be approached in early/mid October once the deal documentation (item E) is well advanced
F. Tactical Decisions	• Prior to launching the inaugural term debt offering, tactical decisions will be made with respect to choice of market (Canadian or the U.S.), product, tenor etc. • Tactical decisions will take into consideration current market tone and overall cost considerations (including currency swaps)
G. Execution	• To attract the broadest base of investors and provide the tightest pricing, a full roadshow will be undertaken, regardless of whether the term debt is completed in Canada or the U.S. • To the extent that a U.S. offering is completed, currency swaps will be required as part of the deal execution

[1] Timelines are indicative only and could be subject to delay

Appendix 8 Business Case for OPG's Participation in Ontario's Fair Hydro Plan

Overview

In support of the Ontario government's proposed Fair Hydro Plan (FHP), the Minister of Energy wrote to OPG on April 13th requesting OPG's involvement in the implementation of Global Adjustment Refinancing component of the Fair Hydro Plan. The Province recognized the need to provide OPG with the necessary assurances with respect to recovery of the costs of refinancing and to enshrine those requirements in the legislation along with the required changes to OPG's governing legislation and constating documents. OPG's Board Chair responded to the Minister on April 18th committing OPG to work with the IESO and OEB to develop a plan. OPG noted that the Province's assurance regarding future cost recovery through enshrining the specific requirements identified by OPG and its financial advisors would be an important consideration for the OPG Board.

A key consideration is the Business Case for OPG to participate in Ontario's Fair Hydro Plan, including the financial benefits to OPG and the residual risk in the proposal after mitigating actions.

Investment Returns for OPG Arising from Participation in the FHP

OPG will form the Financing Entity with governance described in the separate Board memo. The Financing Entity's borrowing is described in Appendix 5 and OPG's investment is summarized in Appendix 6**.**

OPG as the Financial Services Manager will manage the Financing Entity and arrange for all financing into the Financing Entity. The Financing Entity will be funded using three tranches of debt of which the rate will be dependent on the allocation of risk and ratings outcomes:

	% of Financing Entity Borrowing	Source of Funds
Tranche A senior debt	51%	Public issue in capital markets at an expected rate of 4.0 – 4.5%.
Tranche B subordinated debt	39%	Investment from OPG using cash from an equity injection from the Province expected return of 4.5 – 5.5%
Tranche C subordinated debt	10%	Half of Tranche C (5% of total Financing Entity funding) will be funded by an equity injection from the province with the remaining half funded by new OPG corporate debt from capital markets. Investment from OPG expected return of 5.5 – 6.5%.

OPG is expected to earn a spread on the subordinated debt as follows:

Projected Interest Rates and Returns	% Funded	Projected Cost	Projected Rate into Financing Entity	Projected OPG Spread on Funding
Tranche A	51%	4.25%	4.25%	0%
Tranche B	39%	0% (Equity)	5.50%	5.50%
Tranche C	5%	0% (Equity)	6.50%	6.50%
	5%	5.0%	6.50%	1.50%
	100%		**5%**	

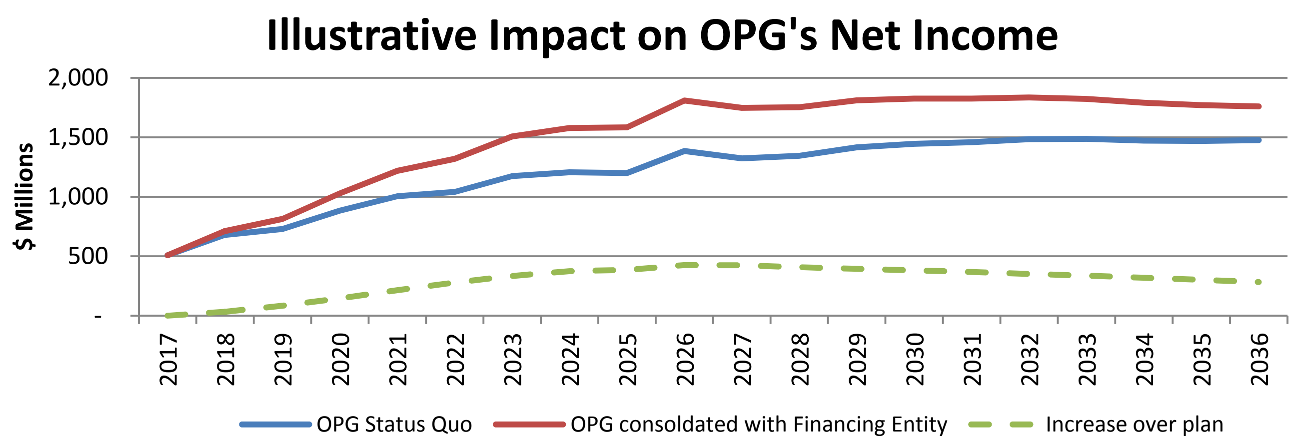
In addition OPG will earn a management fee for operating the Financing Entity. The management fee will offset additional costs incurred to manage the Financing Entity as well as provide a return to OPG.

Benefits to OPG

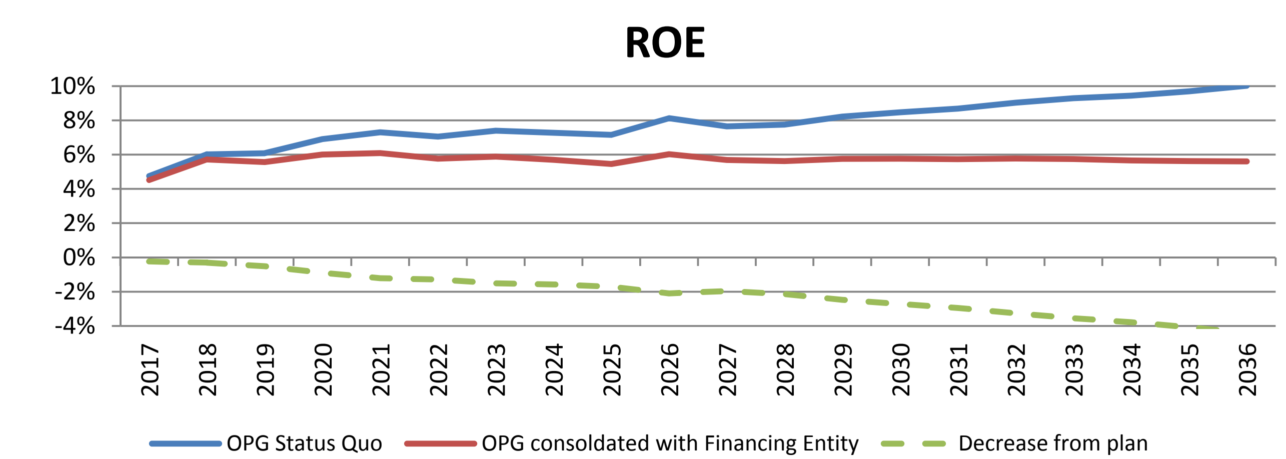
Financial Benefits

OPG would derive financial benefit from its debt investment in the Financing Entity. Net income is forecast to increase by an average of $290 million per year and a total of $5.8 billion over the period from 2017 to 2036. OPG's earnings would be derived via the spread between the interest rate charged to the Financing Entity and the cost of OPG's debt and equity, as noted above.

In addition, OPG expects to earn both fixed and variable management fees for operating the Financing Entity: the fixed fees are in the range of 5 – 10 basis points of the Financing Entity's total debt (or a peak of $12.5 million annually @ 5 bps) and variable fees are expected to be no greater than +/-$1 million per year, subject to accounting treatment. These fees will be offset by an estimated $1.5 million in annual costs, primarily driven by labour. OPG's return from the fee will be subject to OEB review to determine whether it is reasonable.



The investment requires a significant $11 billion equity injection into OPG. The high proportion of equity as a source of funding combined with the nature of the investment (a loan to the Trust) lead to a lower return than the ~9% regulated Return on Equity (ROE) that OPG targets in its existing regulated business. As a result, it will create negative pressure on OPG's ROE. OPG's ROE is expected to be reduced by approximately 2% per year on average, as illustrated below.



OPG's sole shareholder has requested OPG to consider the investment in the Trust with an understanding of the benefits and risks to OPG. There are significant elements of this investment that suggest it should not be evaluated using the same methodology as more traditional OPG investments. First, OPG would not have access to the equity injection from the Province for alternative investments. As a result, the return on that investment should not be compared to the return of alternative investments. Second, the shareholder is aware of the returns that can be achieved using its equity indicating implicit acceptance of that level of return for a debt investment and that these returns would be reflected in the Province's fiscal plan upon consolidation of OPG's results.

The standalone Internal Rate of Return (IRR) for OPG's investment at risk related to the FHP, ignoring the province's flow through equity, is ~13.5%.[1]

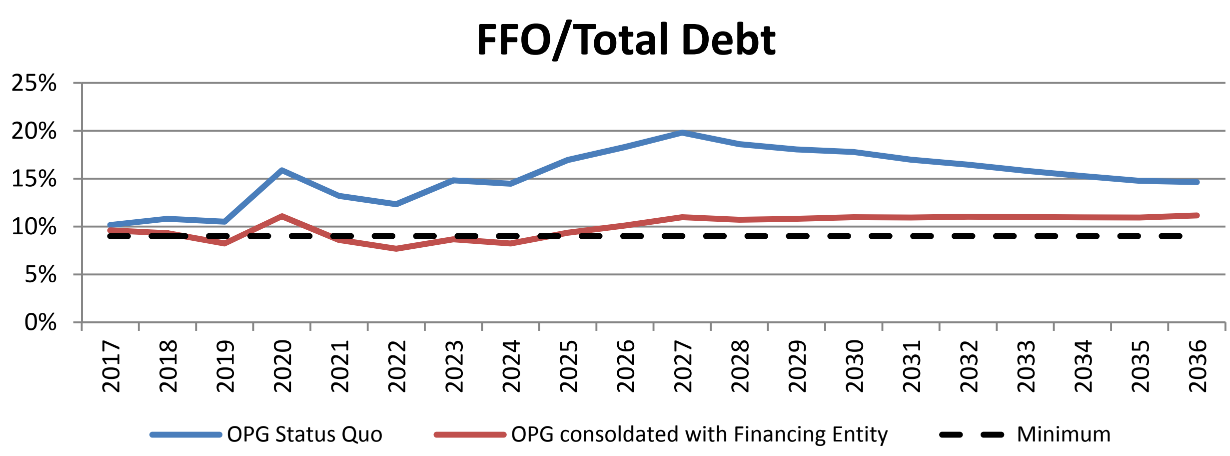
The primary risk to OPG's economics would be if spreads on OPG's lending to the Trust do not materialize as expected. It should be noted that the return will be commensurate with risk that is transferred from the senior debt to the subordinated debt. Lower return would indicate less risk transfer required for the senior debt to achieve its maximum rating (target AAA).

Impact on OPG's Existing Business

The financing of the Financing Entity has been structured to minimize the impact on OPG's existing business by establishing the level of debt and equity that keeps FFO/Total Debt within a specified limit. The impact on OPG's credit rating metrics and balance sheet are manageable, but will be dependent on Rating Agencies' level of focus on consolidated results. The legislation has been drafted to fully ring-fence the Financing Entity from OPG. Initial discussions with Rating Agencies indicate that the Financing Entity may be excluded from their consolidated assessment of OPG with the expectation that the Financing Entity will have neutral impact on OPG's credit rating.

Rating Agencies focus on two key metrics for OPG: Debt/EBITDA and FFO/Total Debt with greater emphasis on FFO/Total Debt. Rating Agencies assess metrics over a number of years so that there is a higher likelihood of downgrade where metrics exceed the limits over a few periods with greater emphasis on forecast periods. With Debt/EBITDA exceeding the limit in most years, the FFO/Total Debt metric increases in importance from a credit rating perspective.

OPG remains consistently above Rating Agency requirements for FFO/Total Debt under the status quo scenario. In addition, by financing its investment using 44% equity, OPG continues to be able to demonstrate adherence to Rating Agency requirements for FFO/Total Debt upon consolidation of the Financing Entity.



[1] This calculation of IRR ignores the Province's flow-through equity that is injected into OPG and then immediately lent to the Financing Entity. From this perspective, OPG's investment at risk would be limited to the 5% OPG corporate debt it loans to the Financing Entity. The calculation also factors in the source and cost of the Province's equity. The Province is expected to use debt borrowed at an average 4% rate to fund its equity injection into OPG. The IRR calculation nets this 4% fee paid to the Province from returns.

OPG also faces financial risk associated with the timing of its next rate case because it is scheduled in the same timeframe as large FHP increases in customers' bills following the period of inflationary increases. OPG will develop a regulatory strategy to mitigate the risk.

Sensitivities – Impact on Financing Entity

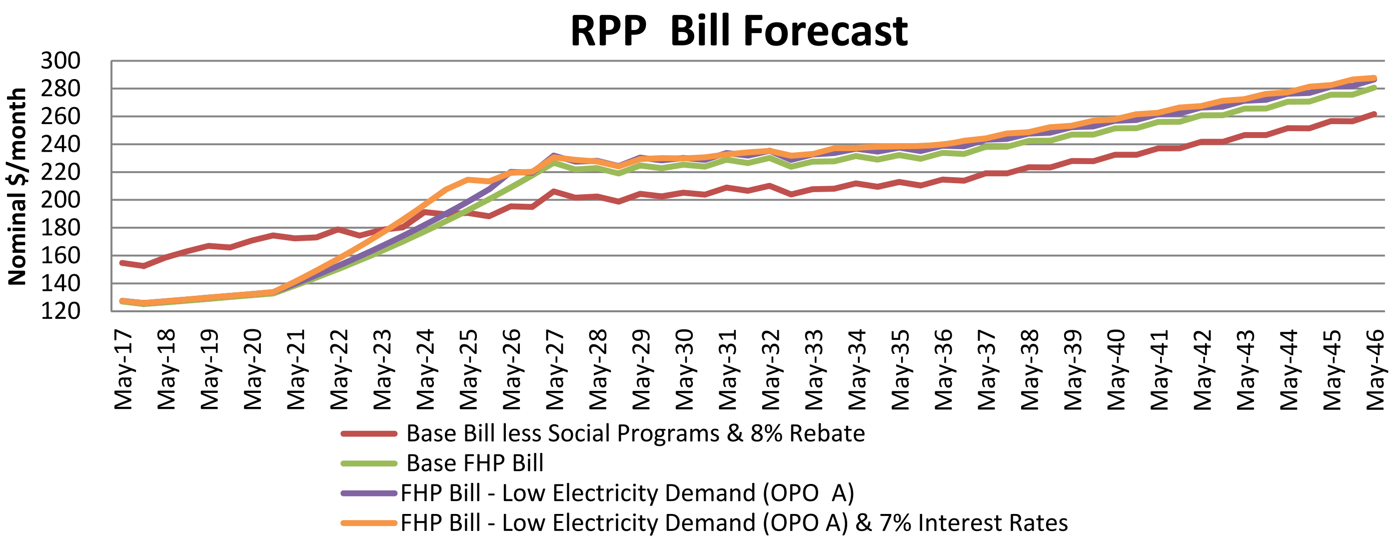
During drafting of the FHP legislation, OPG analyzed a variety of scenarios to ensure that the proposed legislation provides the Financing Entity with enough flexibility to manage borrowing. There are a number of variables that could change over time to impact both the amount of debt the Financing Entity can support as well as the ratepayer impact over the Straight-line Increase Period and the Amortization Period. Sensitivities can be broadly categorized in two areas: electricity system sensitivities and other factors.

Actual electricity system costs will have a significant impact on the FHP because it essentially fixes electricity bills for the next 4 years. If actual electricity system costs are higher than expected, more debt will have to be taken on to maintain bills at the fixed level and bills will need to increase faster during the Straight-line Increase Period. OPG has analyzed sensitivities on a variety of key electricity system cost drivers including electricity demand, natural gas prices, carbon prices, nuclear refurbishment cost, exchange rates, and delivery charges. Results from the most extreme sensitivities are presented below.

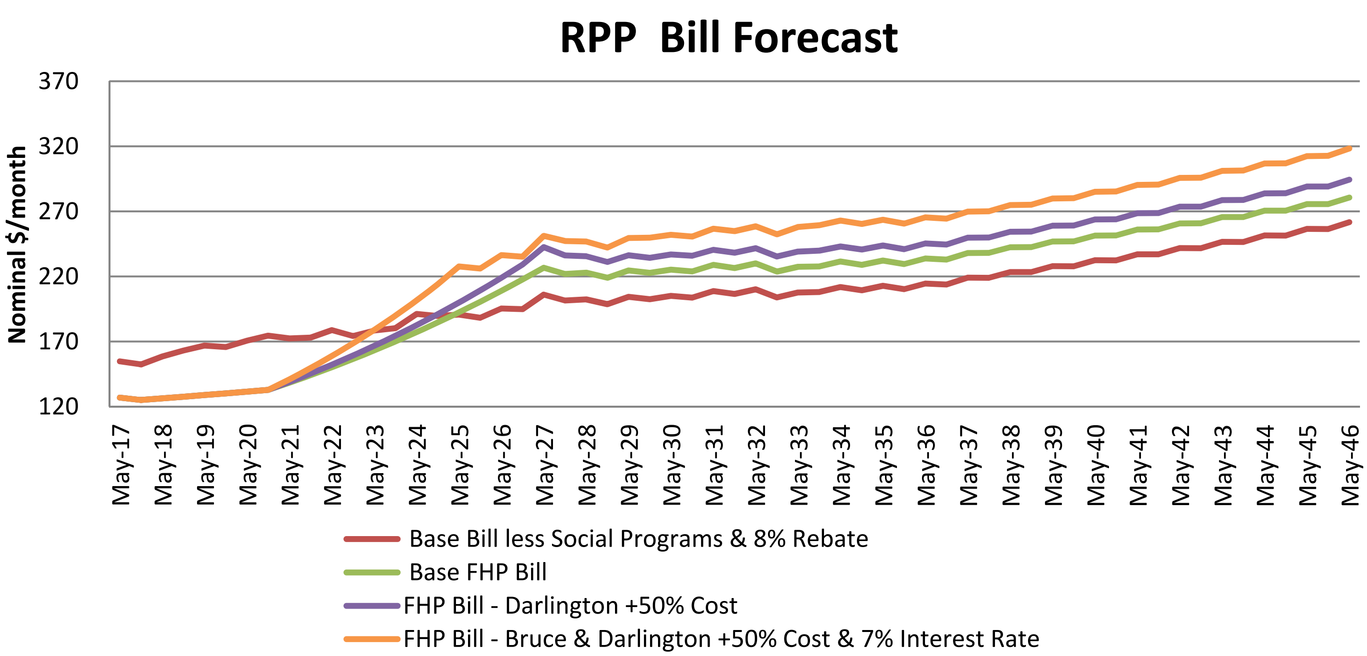
Other factors outside of the electricity system could also impact the Financing Entity including interest rates and the Harmonized Sales Tax (HST) rate. Interest rates will impact the Financing Entity's cost of borrowing. A key Moody's ratings consideration is that the charge paid by ratepayers during the Amortization Period to repay debt must not exceed 10% of customer bills. Based on current forecasts of bills, this 10% limit corresponds to a total of about $2.2 billion per year from all eligible ratepayers. During the Amortization Period, ratepayers must pay interest and repay principal and both amounts must be contained within the $2.2 billion cap. If interest rates increase, interest payments would take up more of the $2.2 billion charge, decreasing the amount of principal that can be repaid. As a result, higher interest rates would decrease the amount of debt that the Financing Entity can take on.

The latest draft FHP legislation has provided significant flexibility in managing electricity system sensitivities. The Inflation Period was reduced from 4 years to 3 years allowing electricity bills to rise earlier, reducing borrowing requirement. As a result, the Financing Entity is able to handle fairly extreme scenarios with manageable outcomes.

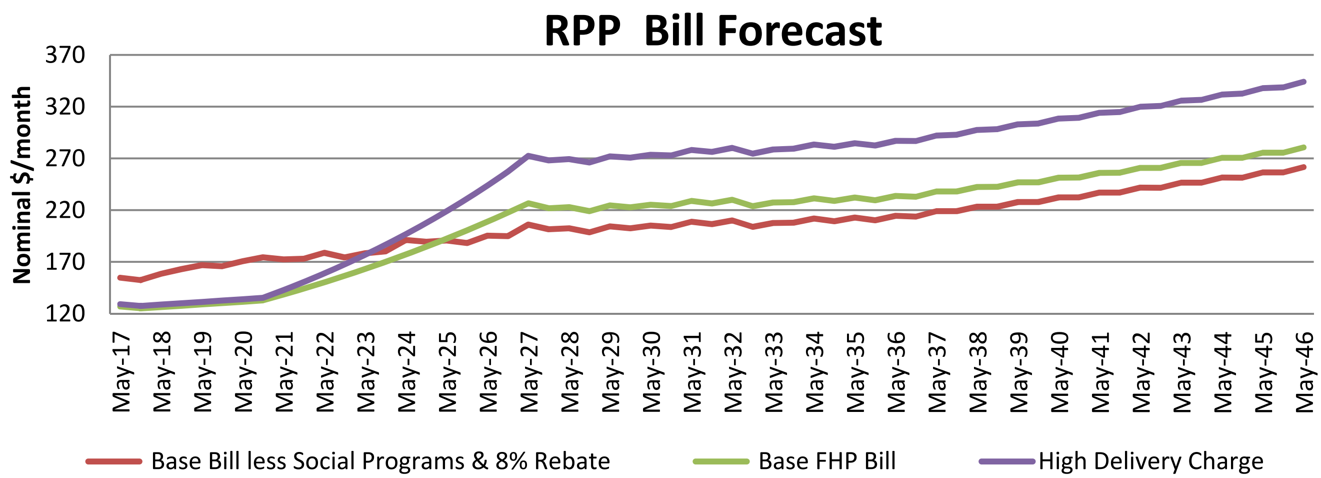
Low electricity demand will have a negative impact on the Financing Entity because repayment of debt will occur over a smaller amount of consumption. Under a low demand scenario with high interest rates (+2% throughout period), bills would have to increase by 11.6% per year during the Straight-line Period to maintain borrowing within the Financing Entity's capacity. This is relative to an 8.6% annual increase under the base FHP scenario.



If the refurbishment of Darlington goes poorly, its output cost will rise over time and require a 9.5% increase in bills per year during the straight-line period. When this scenario is combined with cost overruns during Bruce Power refurbishment and a high interest rate scenario (+2%), bills would need to increase at 12.7% per year in order for the Financing Entity to maintain borrowing within its capacity.



Electricity bills are also driven by transmission and distribution costs. If these delivery charges rise faster than expected, the Financing Entity will need to borrow more to maintain bills at the levels stipulated in the FHP. The Financing Entity is expected to be able to manage a gradual 50% increase in delivery charges by increasing bills 11.3% per year during the Straight-line Increase Period.



<u>Qualitative Benefits</u>

OPG is expected to derive other qualitative benefits from the implementation of the GA Refinancing. Direct benefits include amendments to OPG's formative legislation and constating documents that would eliminate the restrictions on OPG's corporate structure and allow OPG to issue public debt and operate through subsidiaries. This will facilitate OPG's growth plan over the longer term. Other qualitative benefits support customer cost reductions that enhance the long term viability of the Financing Entity. OPG will seek support and commitments that include Shareholder commitments to continued support of Pickering to 2024 and the Deep Geologic Repository project as well as support for other OPG initiatives such as redevelopment of OPG's regulated hydro and an extension of the Lennox contract with the IESO. All of these assets underpin the value of the energy system and support the viability of the Financing Entity. A more detailed description of these potential benefits is included in Attachment 1.

Key Risks and Mitigation

Risk Description	Mitigation
Operational Risks	
The Fair Hydro Plan gets wound up through a change in government or through a legal challenge OPG risk relates to its ability to recover its subordinated debt investment in the Financing Entity.	Provision in the legislation to prevent changes and backed by a contractual guarantee from Province Initially, the Financing Entity will finance using short-term debt to avoid significant penalties if the program is wound up. Any debt issued externally cannot be "undone"
The Financing Entity is unable to secure external financing to fund the regulatory asset Risk to OPG: • Could lead to reputational damage	The Financing Entity is not obligated to buy the regulatory asset. As such, in extreme stress circumstances where the Financing Entity cannot secure external financing, the Financing Entity can decline to buy the asset.
Accounting and Consolidation Risk	
The Financing Entity structure must meet a number of accounting tests to demonstrate control by OPG rather than the Province. If OPG fails to meet the tests, the debt from the Financing Entity will be consolidated on the	External accounting advice has been incorporated into the legislation. Future failure of the accounting tests presents financial risk to the Province rather than OPG.

	province's books. Risk to OPG: • Could lead to reputational damage.	
Reputational risk		
	OPG may sustain long-term, negative publicity due to its association with the Fair Hydro Plan. In the longer-term, the Financing Entity is envisaged to be recovering significant costs from electricity customers and OPG could be perceived as the cause of future rate increase due to its role (i.e. setting borrowing / recovery amounts, timing).	Communication plan is being developed and will be executed with the intent of highlighting that although the Fair Hydro Plan didn't originate from OPG, it is working with the Province to effectively implement the plan.
Financial Risk		
	The impact of investments into the Financing Entity and consolidation of the Financing Entity into OPG's statements may lead to a downgrade in OPG's credit rating which may restrict borrowing or increase the cost of borrowing for OPG's operations.	The Financing Entity will be separate and distinct from OPG and its operation will be ring-fenced. In addition, OPG Investment Strategy and operation of the Financing Entity's Financing Plan will mitigate risks to OPG's credit rating through balanced equity injection and debt.
	OPG's return may not materialize as expected: • Expected spread between cost of capital and return on investment. may be lower, than expected, • The OEB may determine that the Management Fee is unreasonable or the Province may push to reduce the fee.	• Reduction to risk of OPG's investment in the Financing Entity through stronger credit rating with lower impact of subordinated features on investment return. • OPG Treasury has experience with multi-billion debt management program and has included a contingency to proposed structure.

Attachment 1 Qualitative Benefits

	Shareholder Commitments	Benefit to Shareholder	Benefit to OPG	Implementation
FHP Financing Entity Implementation Benefits				
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	Legislation

	Shareholder Commitments	Benefit to Shareholder	Benefit to OPG	Implementation
Customer Cost Reductions that Enhance the Long Term Viability of the FHP Financing Entity				
1	Continued demonstration of strong government support for operation of Pickering Station until 2024 (**Pickering**)	Provides customer savings and is a key contributor to meet the Government's ambitious climate change targets **$0.5-0.6B (2015$) system benefit**	Customer savings, greenhouse gas emission reductions, financially beneficial for OPG and allows sufficient time for an orderly ramp down of Pickering operations	LTEP Business Plan Concurrence Letter
2	Commitment to enhance operation of Beck Pumped Generating Station through market rule and other changes. Demonstration of government support for redevelopment and extension of OPG's regulated hydro (i.e. SAB G1/G2, Ranney, Calabogie, Coniston, etc.) (**Hydro**)	Provides customer savings, leverages OPG expertise, provides shareholder returns and contributes to climate change goals **PGS would provide customers $2M annual savings (2016$)** **SAB G1/G2 provides NPV system benefits of $83M (2016$)** **Hydro redevelopments are lower cost than other new hydro developments and lower cost than decommissioning**	Opportunity to improve operations of Beck PGS to the benefit of customers. Continued measured build-out of hydro fleet supports climate change objectives and provides modest financial benefits to OPG	LTEP Business Plan Concurrence Letter
3	Demonstration of government support of DGR (**DGR**)	Provides public signal of provincial support to the Federal Government and reduces uncertainty around need for alternative sites and approaches. **Cost to restart DGR process $4-6B (constant $)**	Increased regulatory certainty, significantly cheaper than other alternatives resulting in customer benefits.	LTEP Business Plan Concurrence Letter

	Customer Cost Reductions that Enhance the Long Term Viability of the FHP Financing Entity			
4	Contract extension for Lennox (**Lennox**)	Helps ensure longer term system reliability benefits of 2000 MW of low cost existing peaking capacity. Lennox size would distort a capacity auction process **Lennox contract is 1/3 of the cost of new capacity and about 1/2 the cost of current demand response offers**	Provides stability with implementation of capacity markets and retains OPG's reasonably favourable contract terms	Business Plan Concurrence Letter
	Shareholder Commitments	**Benefit to Shareholder**	**Benefit to OPG**	**Implementation**
5	Continued support for OPG to maintain its current site license for nuclear new build at Darlington and preference for OPG to develop any new build nuclear project in Ontario (**New Nuclear**)	Preserving Darlington site provides best opportunity for proceeding with new nuclear. New low emission baseload generation will likely be required to achieve electrification needed to meet the Government's ambitious climate change targets **Cost of maintaining licence of $3-10M/year provides an economical option for new baseload supply**	Investment opportunity to expand OPG's generation portfolio in support of the OPG's long term goals and financially beneficial to OPG. Maintains OPG's leadership in the nuclear industry	LTEP Business Plan Concurrence Letter
6	Province/IESO to check with OPG before committing to new capacity to see if OPG can undertake to mitigate GA Refinancing impacts (**OPG Capacity**)	Leverages OPG expertise, provides shareholder returns and potentially lowers costs and reduces risks of new, innovative investments **Lower cost and contract terms to align with Fair Hydro Plan timing**	Investment opportunity aligned with long term goals and financially beneficial to OPG	Other – Chair/CEO discussion
7	Mandate for generation acquisitions in Ontario (**Acquisition**)	Contracts for a significant amount of capacity are expiring over the next 10 – 15 years. OPG could opportunistically acquire generation over this period providing flexibility as contracts expire **Lower cost and contract terms to align with Fair Hydro Plan timing**	Investment opportunity to expand OPG's generation portfolio in support of the OPG's long term goals	Other – Chair/CEO discussion Business Plan Concurrence Letter

APPENDIX 9: DECISION MATRIX

Major Decisions Matrix

Decision	Impact on Key Stakeholders		
	OPG[1]	Province	Customers
1. Structure for Financing Entity • Trust or corporate wholly owned subsidiary of OPG	• Facilitates consolidation • Ring fences liabilities and obligations from OPG operating company	• Enables desired accounting treatment • Ring fences liabilities and obligations from OPG operating company	• Not a factor
2. Form of Shareholder Direction • Letter asking OPG to work with IESO and OEB to facilitate implementation of Fair Hydro Plan • Shareholder resolution for share issuance • Shareholder approval of the amendments to the Articles of OPG	• Soft direction allows OPG to consider participation on its own merits	• Enables desired accounting treatment	• Not a factor
3. SPV Financing Strategy • Senior (Min 51%) • Subordinated Debt • Warehousing approach • Canadian and US Markets	• Investment in subordinated debt offers OPG an opportunity to earn a return on investment	• Minimum 51% senior debt facilitates desired accounting treatment • Overall strategy structured to minimize cost of financing and offer flexibility to address evolving credit markets	• Overall strategy structured to minimize cost of financing and offer flexibility to address evolving credit markets

[1] Employees and pensioners have not been distinguished from OPG as their interest are not seen as different from OPG's in this decision

Decision	Impact on Key Stakeholders		
	OPG[1]	**Province**	**Customers**
4. OPG Financing Strategy for Investment in SPV • Equity Issuance • Public Market Debt Issuance	• Issuance of equity to the Province allows OPG to invest in the financing entity's subordinated debt while managing credit metrics • Issuing debt in public markets facilitates introduces additional commercial tension on OPG and allows future financing flexibility • Opportunity for OPG to earn an interest spread on investment in subordinated debt over cost of financing	• Enables desired accounting treatment	• Not a factor
5. Setting of Sub-debt coupon rate	• Reflects underlying risk profile of investment thereby allowing for a commercial return	• Reflects underlying risk profile of investment thereby preserving desired accounting treatment	• Not a factor
6. Setting of management and administration fee	• Set based on market rates, thereby allowing for a commercial return	• Demonstrates independent operation of Trust	• Not a factor
7. Key Legislative Features that Balance Ability to Finance with Other Government Objectives			
a. Electricity Act amendments to that OPG can operate through subsidiaries	• Allows greater financing and operational flexibility • Additional commercial discipline will drive operational and commercial improvements	• Enables desired accounting treatment • Enhanced governance • Additional commercial discipline on OPG will generate improved returns	• Additional commercial discipline on OPG will drive operational improvements and reduce costs

Decision	Impact on Key Stakeholders		
	OPG[1]	**Province**	**Customers**
b. Deferred balance must be fully repaid in 30 years	• Sets definitive window for repayment of deferral and limits size of deferral and risk of default	• Facilitates effective financing • Contributes to demonstrating intergenerational equity and helps demonstrates this is not a tax	• Contributes to demonstrating intergenerational equity
c. No cap on rate increases after initial year plus 3-year CPI escalation period	• Provides required financing flexibility and reduces risk of default	• Facilitates effective financing • Contributes to demonstrating intergenerational equity and helps demonstrates this is not a tax	• Contributes to demonstrating intergenerational equity
d. Limited OEB oversight	• Facilitates effective financing • Limits disallowance risk	• Facilitates effective financing	• Customer interests are sufficiently protected in legislation
e. Contingent guarantee from the Province is expected to cover a change in legislation	• Facilitates effective financing • Provides greater certainty for investment decision	• Facilitates effective financing	• Contributes to demonstrating intergenerational equity
8. Requirement for the Province's "springing" guarantee to be triggered if the legislation is successfully challenged. This is a Constitutional Consideration for the Province • As noted above (and this applies to 7(e) of this chart as well), the scope of the Provincial Guarantee has not been negotiated or finalized	• OPG as subordinated debtholder is protected by the springing guarantee, as are the external bondholders/investors	• Province is preparing legislation on the basis that the Fair Hydro Plan fairly allocates costs and benefits of clean energy initiatives to the generations of consumers that benefit from the initiatives	• Not a factor

Decision	Impact on Key Stakeholders		
	OPG[1]	Province	Customers
9. Requirements under the Affiliate Relationships Code will be carefully monitored. • Only applies to licensed distributors and transmitters, not OPG as a regulated generator • OPG has previously agreed to comply with the principles of ARC with respect to certain of its affiliate relationships (through the Nanticoke Solar contract) OPG is considering whether this will extend to the financing entity • The financing entity/trust will need to comply with any applicable laws	• OPG as manager of the financing entity/trust will need to ensure compliance with applicable laws	• Not a factor	• Not a factor

OPG Participation in Fair Hydro Plan
COMMUNICATIONS

Background

The government introduced the Fair Hydro Plan in early March. The plan, if passed in the legislature, would reduce customer bills by 25 per cent when combined with the HST rebate.

OPG will be a key player in this plan, as the proposed legislation would give the company a role in managing the financing aspects as it relates to the customer impact of the Global Adjustment (GA). This program would require OPG to create a ring-fenced special purpose vehicle that would operate outside OPG's regular operations. The entity will refinance payments that currently push residential prices up via GA and spread recovery of these costs over a longer period of time, which would lower customer bills in the intervening period.

Reputational Risks

- OPG could be seen as partisan, and an enabler of a re-election bid.
- Longer term, as repayments start to be built into rates, OPG could be seen as the cause of these increases. The Debt Retirement Charge, for example, became known to some as an "OPG Charge."
- The announcement of a complicated financial entity could create confusion as to the impact on OPG's operations.
- OPG's investment "spread" and management fees on the program could create a backlash if OPG is seen to be making a lot of money off the backs of ratepayers. This will become evident as OPG's financial reports will document the performance and profit.
- The vehicle, when consolidated, will result in higher net income but will dilute the ROE due to the higher equity needed to support the program. In addition the consolidated debt from the trust could place further pressure on OPG credit rating metrics.
- Under the present plan, rates will start to see significant increases at the same time OPG files its next rate application to the OEB, which could tie OPG to rate increases that aren't its doing.

Communications Objectives

- Maintain a low public profile.
- Ensure that this is seen as a government, not an OPG, initiative.
- Be seen as helping customers, without being seen to be politically motivated.
- Leverage the opportunity to enhance OPG's brand by being seen as having the financial strength and sophistication to carry this off.
- Over long term ensure OPG is not seen as the architect or owner of this plan. This will become increasingly important as the Fair Hydro Plan comes to an end and prices start to rise sharply.

Communications Approach

- To enable the first communications objective, OPG will take a low profile approach to communications. Unless there is a requirement to do otherwise, the focus will be on stakeholder and opinion leader outreach.
- The government intends to issue a news release and perhaps have a small event announcement when the legislation is introduced. No technical briefing is planned. At this point there is no direction that OPG will participate. (This is current as of May 2)
- OPG will not issue a release when the legislation is introduced, which will increase the distance between the company and the plan.
- OPG may need to issue a release and material change report at a future date once the SPV is established. This will be determined at a later date.
- The President and CEO will be the key spokesperson for media interviews on a response only basis, with support of the CFO.
- Once bills have been lowered, there is a real opportunity to entrench the OPG price message as part of the larger electricity sector narrative. Research conducted this month will help shape that plan.
- OPG will ensure opposition members, and other key opinion leaders are briefed as information is available and employees are kept informed.

Key Talking Points

- The Ontario government has asked us to play a role in reducing customer rates by implementing the Global Adjustment Refinancing component of the Fair Hydro Plan, which is outlined in the legislation that was introduced today.
- We were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large monetary funds.
- Our low cost energy already moderates customer bills and we see our role in the Fair Hydro Plan as another way we can play a part in helping customers manage energy costs.

Supporting messages

- We remain the province's lowest cost electricity generator, producing half of the province's power at a cost that's about 40 per cent less than other generators.
- OPG is a natural to manage this long-term, major financial transaction as it has a proven track record in this area.
- We will be able to provide more details once the regulations that will direct the shape of the SPV have been created.
- However, this new entity will be structured to ensure it does not impact OPG's existing operations.

We will continue to use these messages on an ongoing basis, to ensure that there is a strong distinction between the OPG operating business and the special purpose vehicle, including as it relates to reporting of the quarterly and annual financial results, which will have a reference to the fund performance. This distinction will be especially important when OPG starts its next rate application, which will coincide with lifting of the Fair Hydro Plan's 2% limit on rate increases, as we must not be seen as the cause of the overall increases.

Materials in Development

- Employee communication note for announcement day (Simple message referring to news release and key messages)
- Q&As for media response
- A stakeholder plan for rollout once the SPV is in place is being developed. This could be as late as July and would follow any public disclosure. This will be a small audience that would include opposition party energy critics who have expressed interest, OEB interveners as needed, financial community as required and energy committees of stakeholder groups who have asked

Top Questions

A detailed list of Questions and Answers is being prepared, but the top three expected questions are:

Q: Why is OPG doing this?

- The Ontario government asked us to play a role in reducing customer rates by implementing the Global Adjustment Refinancing component of the Fair Hydro Plan.
- We were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large monetary funds.
- As Ontario's low cost generator we see our role in the Fair Hydro Plan as another way we can play a part in helping customers manage energy costs.

Q: Is this the right thing to do? Aren't you just kicking the problem down the road?

- *If possible, politely defer questions of policy to the government. If pushed:*
- That said, we do hear from our customers that they are facing difficulties paying for their power, so we understand the importance of helping them manage their bills.
- As Ontario's low cost generator we see our role in the Fair Hydro Plan as another way we can play a part in helping customers manage energy costs.

Q: Will you make money on this?

- OPG is assuming a risk, so there is a cost recovery mechanism and an adequate return to address both the risk, and the internal costs of managing this program.
- The financial aspects of this will be reported transparently each quarter in our financial results.
- Remember that OPG is owned by the province and the people of Ontario. Any profits we make are returned to the shareholder.

Timeline

- Feedback into plan from Special Committee April 7
- Draft materials prepared by May 2
- Communications strategy part of final memo to Board (May 5)
- Legislation introduced (expected May 11)
- Same day Communications to staff

Appendix 11

RESOLUTION OF THE BOARD OF DIRECTORS
OF
ONTARIO POWER GENERATION INC.

WHEREAS:

A. The Government of the Province of Ontario (the "**Province**") has proposed to establish a program to finance the re-allocation of certain costs relating to the development and maintenance of Ontario's electricity generating infrastructure (the "**Fair Hydro Plan**");

B. The Province has provided Ontario Power Generation Inc. ("**OPG**") with a draft proposal to create the "Ontario Fair Hydro Plan Act, 2017" (the "**Draft Legislation**") which sets out the statutory parameters of the Ontario Fair Hydro Plan; and

C. The Board of Directors of OPG (the "**Board**") has established a special committee (the "**Special Committee**") to review and consider the proposed participation of OPG in the Ontario Fair Hydro Plan.

NOW THEREFORE BE IT RESOLVED THAT:

1. OPG is authorized to participate in the Fair Hydro Plan, subject to the regulations under the Draft Legislation and the principal agreements to be entered into by OPG or the Financing Entity (as defined below) to implement the Fair Hydro Plan being consistent with the description of the regulations, the principal agreements and the risk profile presented to the Board.

2. The Board approves the extension of the Special Committee's mandate to oversee management's negotiation of the regulations under the Draft Legislation and the principal agreements relating to the Fair Hydro Plan.

3. OPG is authorized to create such entities (each, a "**Financing Entity**") as is reasonable and prudent to carry out its participation in the Fair Hydro Plan.

4. OPG is authorized to negotiate and enter into and perform its obligations under such documents, agreements, designations and instruments (collectively, the "**Fair Hydro Plan Agreements**"), as is reasonable and prudent to carry out its participation in the Fair Hydro Plan, including such agreements as may be required for the management and control of the Financing Entity.

5. Any two officers of OPG, including at least one of the Chief Financial Officer or Treasurer, are hereby authorized to execute and deliver the Fair Hydro Plan Agreements in the name and on behalf of OPG and under its corporate seal or otherwise, and such execution and delivery shall be conclusive evidence of the agreement of OPG to the terms and conditions contained therein.

6. Any two officers of OPG, including at least one of the Chief Financial Officer or Treasurer, are hereby authorized to execute and deliver all such documents, agreements, and instruments, and to do all such other acts and things as may, in the opinion of such persons, be necessary or desirable to facilitate OPG's participation in the Fair Hydro Plan and to implement the intent of this resolution.