MEMO

Date: May 5, 2017

To: Glenn Thibeault, Minister of Energy

Re: Fair Hydro Plan Impact on OPG

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. The following describes the role OPG will play in financing the customer reductions envisioned in the Fair Hydro Plan legislation and the impact on its accounting and business results.

OPG will provide the industry expertise and financial resources, 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 underlie the 25% bill reduction to consumers and spread recovery of these costs over a longer period of time, which would lower customer bills in the intervening period.

OPG was asked to evaluate the business opportunity of this plan due to the following:

- Our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large monetary funds.
- OPG manages over $30 billion related to our pension and nuclear decommissioning funds and has the capability of managing this program
- As Ontario's low cost generator the ability to accommodate customer bill reductions is another way we can play a part in helping customers manage energy costs.

While the operation of the special purpose vehicle will be distinct and separate from the generation business, we believe the legislation, in combination with future Regulations to be drafted, will enable OPG to consolidate the operations of this entity. While the legislation is supportive of the accounting requirements, by itself, it is not sufficient. The finalization of Regulations and other supporting documentation are needed to ensure OPG can demonstrate control over the financing entity that is needed to support consolidation.

All documentation that outlines the roles of various parties including the IESO and the OEB will have to fit together to provide a complete picture. With the consolidation of OPG by the Province, the operations of the Fair Hydro Plan will be fully reflected in the Province's financial statements. Our auditors, Ernst & Young, have concurred with the company's assessment regarding consolidation of the entity with OPG.

Sincerely,

Jeff Lyash
President and Chief Executive Officer