

Ministry of Energy

Office of the Minister

4th Floor, Hearst Block
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6754

Ministère de l'Énergie

Bureau du ministre

4^e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél. : 416 327-6758
Téléc. : 416 327-6754



MC-2017-911

May 11, 2017

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

Dear Mr. Lord:

Thank you for your letter of April 18, 2017. As OPG works toward developing a plan for financing mechanisms that could achieve the objective set out in the Ontario Fair Hydro Plan of refinancing the global adjustment, I would like to update you on recent developments.

I am pleased to advise that today I stood in the legislature to introduce the Fair Hydro Act, 2017 for first reading. Prior to first reading, I had the privilege of recommending the bill to Treasury Board and Cabinet for approval.

The legislation was designed to achieve accounting, legal and financeability outcomes. I would like to highlight certain key elements for you.

To achieve OPG's accounting purposes and financial position, in designing the legislation, the Ministry of Energy accepted OPG's position that the Minister will not be able to remove OPG as Financial Services Manager. The legislation would enable a structure that would give OPG extensive control, including the ability to earn a return and take on risk. These objectives also informed the role that has been crafted for the Ontario Energy Board in calculating rates based on inputs provided by the Financial Services Manager.

We have addressed legal imperatives of the Ontario Fair Hydro Plan by creating a mechanism to take into account the need to align the costs attributable to future ratepayers with benefits to those same future ratepayers. Through the fair allocation, the government intends to ensure that the costs of clean energy initiatives undertaken by the government are allocated fairly among future generations in proportion to the benefit that they receive. In this way, the fair allocation will effectively constrain the debt that future consumers must bear. OPG, as the proposed Financial Services Manager, and in establishing special purpose entities to take on financing obligations, will be obliged to undertake its financing activities mindful of the fair allocation.

.../cont'd

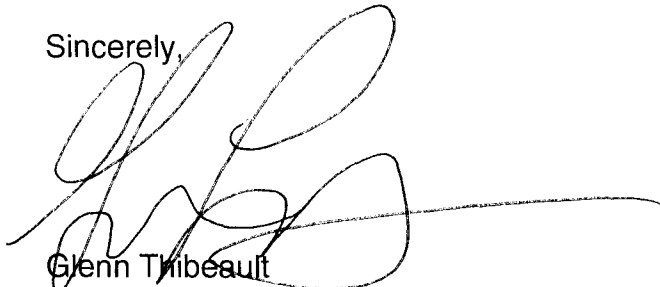
We have appreciated the advice of your financial advisors that the Province will be expected to provide guarantees to investors that would be triggered if the act, if enacted, is amended or revoked and, in the event that the act, if enacted, is found by a court to be beyond the authority of the legislature. I anticipate taking the guarantees identified by your advisors forward for requisite approvals in due course, as contemplated by the bill.

The introduction of the proposed Ontario Fair Hydro Act, 2017 is only one element in the implementation of Ontario's Fair Hydro Plan. In conjunction with the bill, I have signed a shareholder resolution to allow for an amendment to OPG's Articles of Amalgamation that will facilitate OPG's debt offerings. In addition, ministry staff are working to provide the assurances referred to in your letter that your board requires. Ministry staff will also further engage OPG in work on regulations that will provide some of the detail required to proceed if the bill is passed.

Thank you to your team and advisors who contributed to the development of the legislation. They made significant contributions toward achieving the balance of accounting, legal and financeability that is required in order to implement the Ontario Fair Hydro Plan.

Thank you also for the support of the Board and the CEO through this process. I look forward to receiving your plan by June 1, 2017.

Sincerely,



Glenn Thibeault
Minister