Fair Hydro Trust Implementation

OPG Briefing to Minister of Energy

June 13, 2017

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Overview

- The Fair Hydro Plan (FHP) legislation has been passed and regulations are moving towards completion.
- Once complete, the next step in implementing the FHP is preparing the Trust to obtain funding and providing OPG with ability to fund its portion of the Trust.
- The purpose of this briefing is to provide an overview of OPG's accelerated workplan for funding the Trust, including:
  1. Developing the contracts and structure for the Trust
  2. Securing a credit rating for the Trust's debt
  3. Access to Debt Markets
     A. Short-term debt
     B. Long-term debt

1. Financing Entity Contracts & Structure

- Contractual arrangements and structural documents will be key for ensuring that investors are offered the protections expected for highly rated debt.
- These agreements will involve discussions between the OFA, ENERGY, MOF, IESO, Dealers, Trust, OPG, Third party service providers, Trustee, etc.
- Key agreements include:
  - Share subscription agreements to fund equity injection into OPG
  - Purchase and Sale agreements between IESO and the Trust
  - Indemnity for OPG Directors and Officers
  - Financial Services agreement between OPG and Trust
  - Management fee and OEB participation
  - Additional investor protections such as a form of Provincial guarantee
  - Payments in Lieu of Taxes exemption to minimize PILs payable by the Trust, as those costs will be recovered from ratepayers

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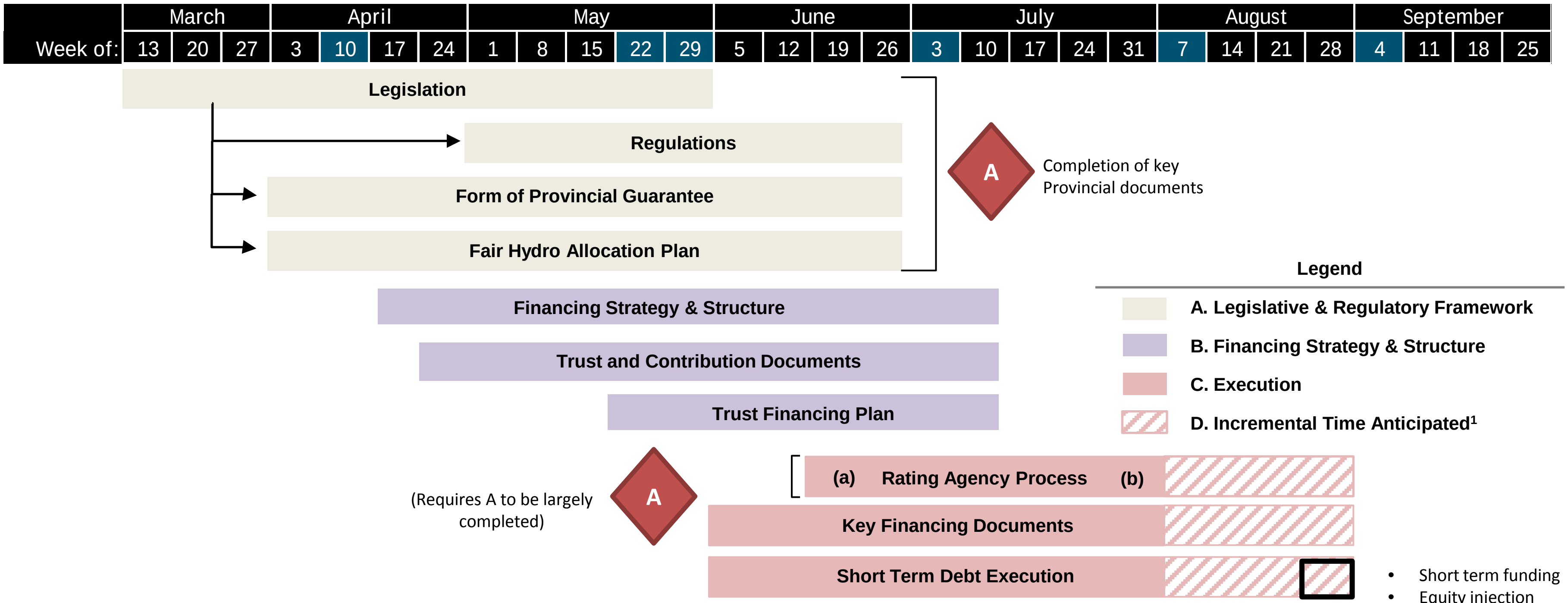
2. Rating Process

- Before the Trust can access debt markets, it must engage with ratings agencies to have its debt rated.
- In order to commence the credit rating process, the following must be completed:
  1. Fair Hydro Act & Regulations and the form of the Provincial Guarantee
     - Critical to the credit rating of the Trust’s debt
  2. Fair Hydro Allocation Calculation and Plan
     - Required to determine the maturity profile and capacity of the financing program that will be rated
  3. Trust Financing Plan
     - Important to the rating agencies in assessing the merits of the financing approach

3. Access to Debt Markets

- The Trust is expected to be in a position to access the short-term debt markets by the end of August 2017. The debt platform must be finalized at this time which would include a master trust indenture, short term debt facility and an intercreditor agreement.
- Access to long term debt markets is expected to be established by the end of October 2017.
- To maintain maximum flexibility for the financing program, deal documentation will be developed concurrently to access both the Canadian and U.S. term debt markets.
- The timeline for accessing debt markets is detailed on subsequent slides.

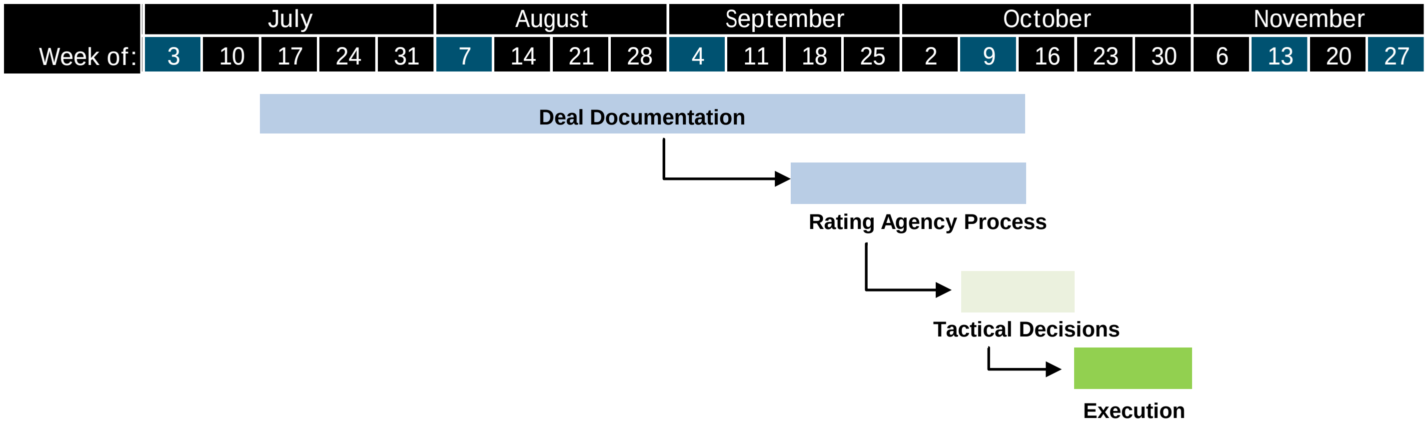
3.A Critical Path Flow Chart – Short Term Debt



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 • Fair Hydro Allocation Plan is required to determine the target amortization profile and Past-Over-Charges which will establish an effective 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 are beginning in June as 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

3.B Critical Path Flow Chart –Long Term Debt



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

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Challenges to Timeline

- Extremely compressed time frame to develop structures.
- Concurrent/parallel activities establishing legal (legislation and regulation) and contract structures.
- Interrelationship between different elements of the structure and the need to involve many of the same individuals from government, legal counsel, OPG, IESO, OEB and dealers to ensure appropriate issues identified and resolved in a consistent manner.
- Ratings process requires structure and all key agreements to be finalized.

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