MEMORANDUM

CONFIDENTIAL

To:	The Board of Directors of Ontario Power Generation Inc. ("**OPG**" or the "**Company**")	Date: September 29, 2017
From:	The Special Committee of the Board of Directors of OPG (the "**Special Committee**") George Lewis (Chair) Bill Coley Lisa DeMarco Bernard Lord Peggy Mulligan Yezdi Pavri	
Re:	Report of the Special Committee dated May 12, 2017 regarding the Fair Hydro Plan (the "**Report**")	
Re:	Conditions to the Special Committee's Recommendation	

BACKGROUND

In the Report, the Special Committee set out its process for reviewing and evaluating OPG's participation in the Ontario Government's "Fair Hydro Plan" which, among other things, would reduce the electricity bills for households and some small businesses and farms in Ontario by 25% on average.

To facilitate the Fair Hydro Plan, the Province introduced legislation to enable the Independent Electricity System Operator ("**IESO**") and the Company to work together to develop a proposal to refinance the Global Adjustment Charge ("**GAC**") over a longer period (the "**Refinancing Plan**"), which could amount to $20 billion to $30 billion in deferred GAC over a potential thirty-year period.

In the Report, the Special Committee recommended that the Board approve the participation by the Company in the Refinancing Plan (as described in the Management Business Case presented to the Board), subject to the conditions set out in Schedule "A" of the Report (the "**Conditions**"). The Board provided such approval at its meeting held on May 12, 2017.

STATUS OF CONDITIONS

The following is an update on the status of each of the Conditions to approval for the Company to proceed with participation in the Refinancing Plan:

1. *The Province of Ontario enacts the legislation provisionally titled, "the Ontario Fair Hydro Plan Act, 2017" (the "**Proposed Legislation**") and its attendant Regulations that are consistent with OPG's requirements and objectives for participating in the Fair Hydro Plan, as outlined in the Management Business Case, including as detailed in Appendix 2 Part B "Regulations" and Appendix 2 Part C "Term Sheets For Material Contracts Required to Implement the Financing Entity".*

The Province passed the *Ontario Fair Hydro Plan Act, 2017* on June 1, 2017 and a general regulation under such legislation on June 27, 2017.

There are still certain regulations (or amendments to existing regulations) to be passed addressing the following matters:

(i) setting out the structure of OPG's management fee for providing management and financial services to the Fair Hydro Plan financing entity and the scope of the Ontario Energy Board's ("**OEB**") review of such fee;

(ii) making certain clarifications regarding the Fair Allocation Amount – for example, confirming that the financing entity may incur and be paid carrying costs (interest and other financing costs, but not principal payments) at all times, even when the Fair Allocation Amount for a period is negative;

(iii) providing for the IESO to pay the financing entity's carrying costs through the existing Global Adjustment mechanism, rather than a specific Fair Hydro "Clean Energy Adjustment" charge, until the 25% rate reduction period ends (April 2021);

(iv) providing for certain Provincial tax exemptions for OPG and/or its subsidiaries in respect of the financing entity; and

(v) subject to ongoing discussions with OPG's financial advisors (the "**Dealers**"), setting a cap on the "Clean Energy Adjustment" charge to avoid acceleration of issued debt on an event of default.

Work on each of these regulations is progressing, with the following status:

- With respect to item (i), the fees regulation, OPG has provided a draft of the regulation to the Province. The Province has forwarded the draft to the OEB for review, and we expect to receive comments from the OEB **[the week of September 18]. [NTD: Update when comments have been received.]**

- With respect to items (ii), (iii) and (iv), OPG management does not expect that there will be any material issues with passing regulations to address these matters.

- With respect to item (v), the working group is considering the best means of implementing the cap, i.e., through additional regulations or the terms of the financing agreements.

Work on the primary agreements for the Refinancing Plan, being:

- Declaration of Trust to establish the financing entity;
- Trust Indenture to set up the debt platform for the financing entity;
- Management Agreement between OPG and the financing entity;
- Master Transfer and Sale Agreement by which the IESO sells to the financing entity the "regulatory asset" to recover financing costs in the future; and
- Change of Law Assumption Agreement (formerly called the Guarantee);

has progressed significantly and such agreements are close to being finalized, with the exception of the Change of Law Assumption Agreement where the parties are continuing to negotiate a term sheet with the Province. The main outstanding issue on the Change of Law Assumption Agreement is the scope of the Province's approval rights with respect to debt issuances by the financing entity. The Province's review would not raise any financial risk for OPG or the financing entity, as the financing entity would always have the option not to issue debt to purchase the regulatory asset if it is not satisfied with the Province's review. However, the scope of the review would raise accounting consolidation issues. As a result, we are suggesting that the Province have the right to approve the form of financing documents up front (and any substantive changes going forward) and an "envelope" of debt that could be issued over a specified period of time (e.g. up to $2 billion in a two-year rolling period).

Management confirms that the above-noted agreements reflect the requirements and expectations for OPG and the financing entity to participate in the Fair Hydro Plan.

We also note that the Province has executed an indemnity in favour of OPG, its directors, officers and employees for any claims (e.g. lawsuits) against them resulting from their work on the Fair Hydro Plan.

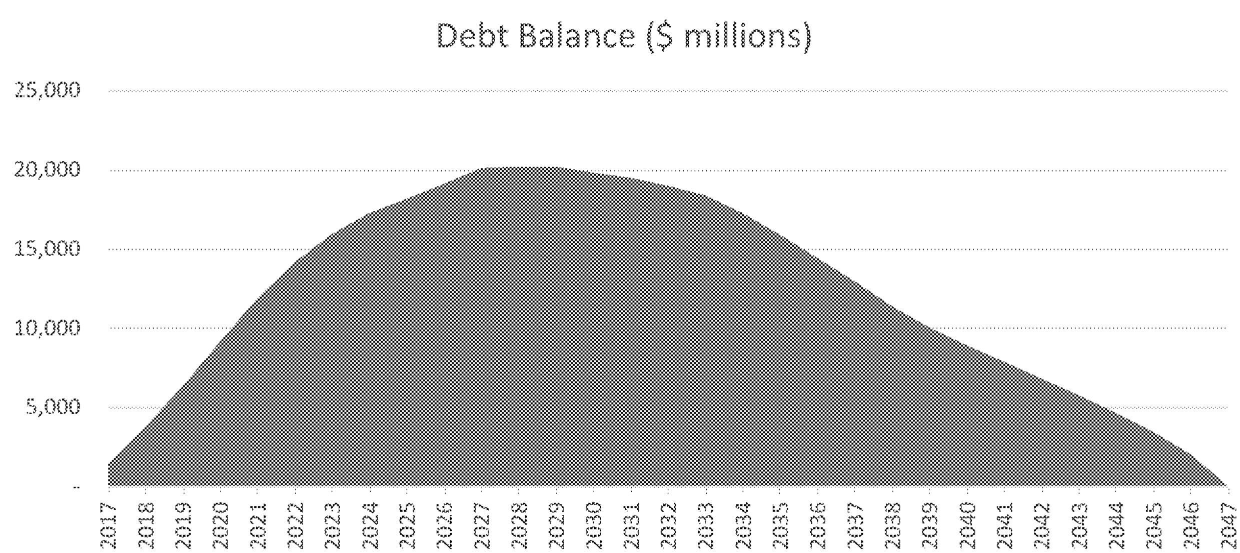
2. *OPG's Articles of Amalgamation are amended by the Province, as the Company's sole shareholder, to permit OPG to participate in the public debt markets without restrictions.*

The Province passed a shareholder resolution approving an amendment to OPG's Articles to allow the issuance of debt securities to the public. OPG filed the Articles of Amendment on June 1, 2017. **[Note: A copy of the Articles of Amendment are attached for reference.]**

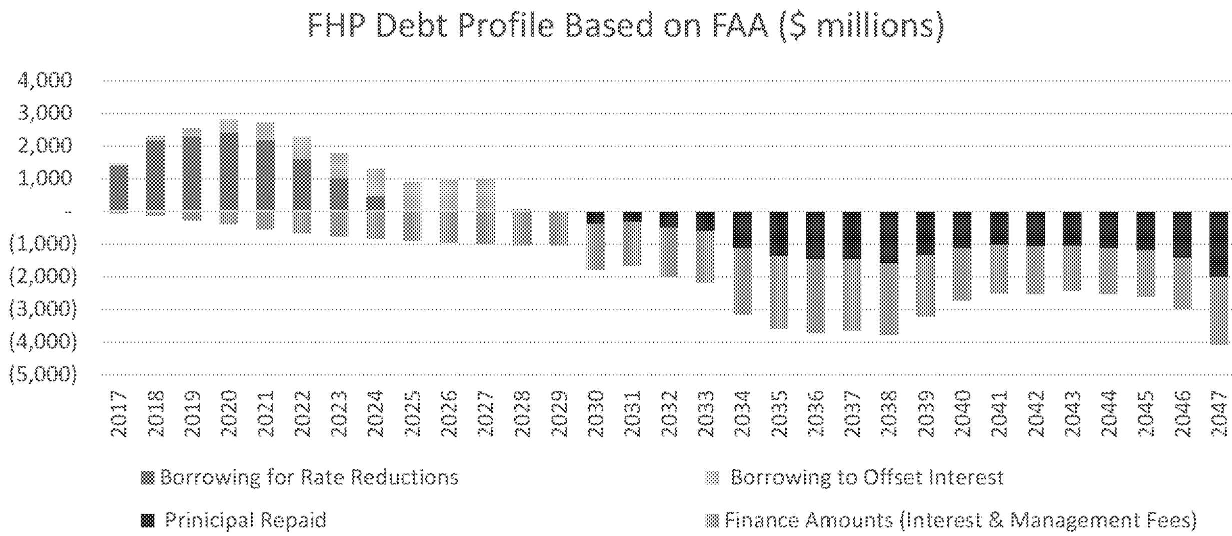
3. *The Fair Allocation Amount (as defined in the Management Business Case) eligible for refinancing is confirmed by the Province in writing.*

On **[September 2X, 2017]**, the Minister of Energy sent OPG a letter stating the Fair Allocation Amount for periods **[•]** the periods **[•]** over the life of the Fair Hydro Plan was communicated under a separate letter from the Ministry of Energy. OPG, as Financial Services Manager, must ensure that finance amounts (interest, management fees and principal repayment) related to any debt the financing entity issues align with the Fair Allocation Amount.

Based on the Fair Allocation Amount and the Province's electricity bill reduction targets, OPG expects the following debt profile for the program, peaking at about $20 billion in 2028:



The customer will start paying for the program in **[2028]** with maximum charge to customers peaking at $**[3.5b]** in 2036



4. *OPG receives a letter from the Minister of Energy, on behalf of the Province, following the introduction of the Proposed Legislation to the effect that, among other things, the Province has 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 rate payers with benefits to those same ratepayers, substantially in the form of the draft letter provided to OPG on May 8, 2017;*

OPG received this letter on May 11, 2017, a copy of which is attached.

5. *Evidence satisfactory to the Special Committee as to the enforceability of the Guarantee.*

The Province's counsel, Blake, Cassels & Graydon LLP ("**Blakes**"), has provided OPG and the Dealers with a draft of the enforceability opinion with respect to the Guarantee (now called the Change of Law Assumption Agreement). OPG's external counsel and the Dealers' external counsel have reviewed and provided comments on the opinion to Blakes. We expect that the comments will be resolved and that the enforceability opinion will be in final, agreed form in the next few weeks.

[NTD: Copies of the opinion with Torys' and Oslers' combined comments, and subsequent responses from/to Blakes, are attached.]

6. *OPG management takes guidance from, and provides regular updates to, the Special Committee in respect of the foregoing in the form, manner, regularity and duration.*

OPG management has provided regular updates to the Special Committee since the Board's May 12, 2017 meeting and has taken our guidance on the foregoing matters. We have been, and are, satisfied with the manner in which OPG management has proceeded on the Fair Hydro Plan.

RECOMMENDATION

[Given the satisfaction or expected satisfaction of the Conditions as set out above, the Special Committee recommends that the Board provide final approval to the Company to proceed with participation in, and implementation of, the Refinancing Plan.]