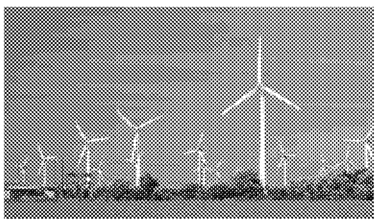
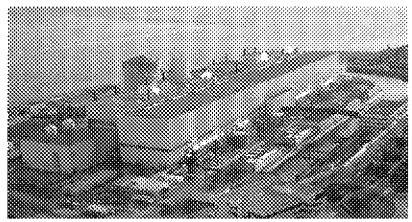
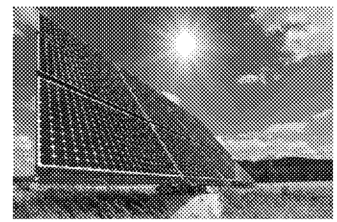
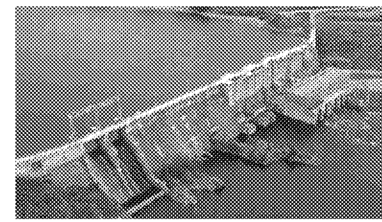
Fair Hydro Plan Financing Program
Rating Agency Presentation

October 13, 2017

ONTARIO POWER GENERATION

CIBC Goldman Sachs RBC | RBC Capital Markets

Table of Contents

Executive Summary

Purpose

- To provide high-level overview of what is being contemplated by Ontario's Fair Hydro Plan ("FHP") and related financing
- This presentation is based on the legislation and regulations in place and anticipated contractual arrangements
- To set expectations for timing and process

Brief Overview

- On March 2, 2017 Ontario announced its Fair Hydro Plan which proposes to lower the average residential electricity bill by 25%
  - 25% reduction includes the 8% rebate introduced in January 2017 as part of the Ontario Rebate for Electricity Consumers Act, 2016
  - The 25% reduction is expected to be in effect until 2021 although bills may be allowed to increase by the rate of inflation
- The 17% incremental reduction as part of the Fair Hydro Plan will be recorded as a regulatory deferred asset for future recovery
  - The recovery period depends on the final fair allocation but is expected to begin in 2027 and end in 2047
- The exact quantum and duration of the program is still being developed, but the deferral is expected to amount to ~C$2.0bn / year
  - It is expected that 50+% of the financing will be derived from the capital markets
- Legislation to effect the recovery right was enacted in early June, and the regulations were largely completed at the end of June
  - Legislation and regulations were designed with capital market financing objectives in mind
  - Careful consideration given to possible structural enhancements with respect to creating the regulatory asset, assignability, achieving a true-sale opinion, being non-bypassable and including a true up mechanism to ensure repayment

Ratings Objectives

- We will be pursuing a combination of ABCP conduit rating confirmation, and explicit long-term ratings for the term debt and sub-debt

Transaction Parties

Issuer	Fair Hydro Trust ("FHT")	
Advisors	CIBC, Goldman Sachs, RBC	
Financial Services Manager	Ontario Power Generation ("OPG") is 100% owned by the Province of Ontario (the "Province")	A low (DBRS), BBB+ (S&P)
Servicer	Independent Electricity System Operator ("IESO")	A high (DBRS), Aa2 (Moody's)
Provincial Rate Authority	Ontario Energy Board ("OEB")	
Guarantor	Province of Ontario (the "Province")	AA low (DBRS), AA- (Fitch), Aa2 (Moody's), A+ (S&P)
Issuer's Counsel	Torys LLP (Canada), Hunton & Williams LLP (U.S.)	
Advisor's Counsel	Osler, Hoskin & Harcourt LLP (Canada, U.S.)	

Timeline

- Deferral started in June 2017
- First issuance is Term debt
- Short term debt issued by end of year

Key Dates

- Rating Agency kick-off meetings
- Complete Ratings Process (Term Debt)
- Complete Ratings Process (Warehouse)

Market Holidays

- Canadian
- U.S.

October 2017

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

November 2017

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

December 2017

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

Table of Contents

Overview of the Electricity Market in Ontario

The Ontario electricity market is highly regulated

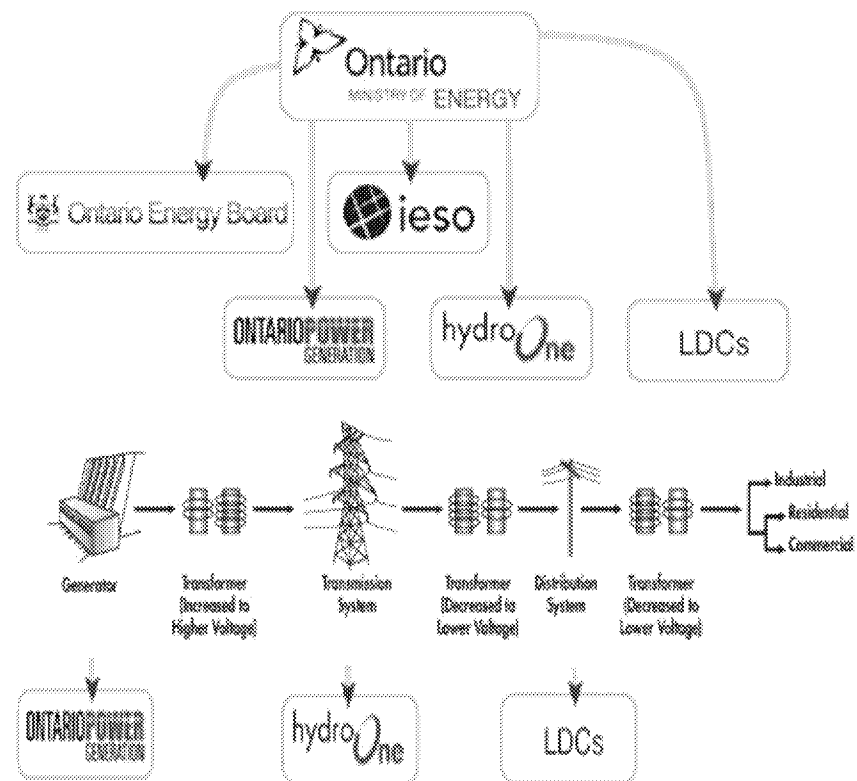
- Transmission rates, distribution rates, and OPG's generation are set by the Ontario Energy Board
- Rates for the majority of the remaining generation supply are set by direct contracts with the IESO (e.g. Wind / Solar / Hydro Power)

Key Entities

Ontario Ministry of Energy	- Sets policy for the electricity system
Ontario Energy Board	- Ontario Energy Board is Ontario's independent energy regulator that evaluates rates paid to regulated energy providers - The Ontario Energy Board has a statutory obligation to set the regulated electricity price for Regulated Price Plan (RPP) consumers
IESO	- The Independent Electricity System Operator manages the operation and reliability of Ontario's bulk power system and administers the wholesale electricity market
OPG	- Ontario Power Generation rated A low (DBRS), BBB+ (S&P) is Ontario's largest electricity generator, producing approximately half of Ontario's electricity – Wholly owned by the Province of Ontario rated AA low (DBRS), AA- (Fitch), Aa2 (Moody's), A+ (S&P)
Hydro One	- Owns and administers transmission in the province
LDC's	- Local Distribution Companies (LDC's) provide power to end-users (residential / commercial / industrial) - There are ~70 LDC's operating in the IESO market; the 3 largest LDCs[1] account for ~60% of Ontario's 5.1 million customers

(1) Hydro One, Toronto Hydro, and Alectra

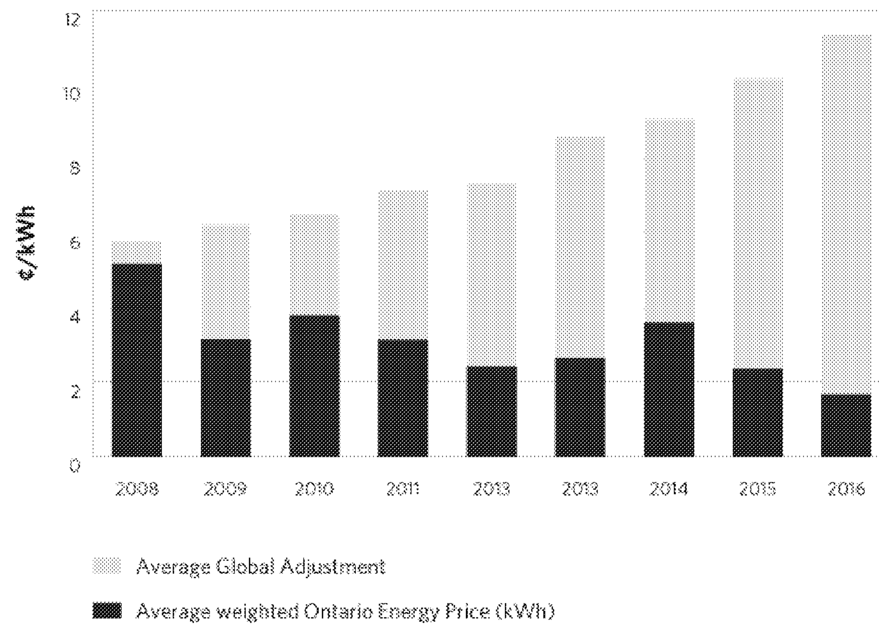
The Ontario electricity market has $22B in annual cash flows



Overview of the Global Adjustment

- The commodity cost of electricity charged to customers in Ontario is made up of two components: the Hourly Ontario Energy Price (HOEP) and the Global Adjustment (GA) charge
- HOEP is the wholesale market price of electricity set by the competitive market when supply meets demand
- Virtually all generation in Ontario is either contracted or rate regulated. As a result, there can be differences between the market price of electricity and the contracted or regulated rate paid to generators
- Customers are charged the GA to make up the difference between contract/regulated prices and market prices. The cost of conservation programs is also included in the GA
- The FHP decreases the price consumers pay for electricity, in turn reducing the funds collected by the IESO and creating a shortfall in the funds the IESO has available to pay to generators and for conservation

Average Electricity Price



Source: IESO

Components of the Customer Bill

Electricity

- The commodity cost is made up of HOEP and the GA.
- The rates charged to customers for the commodity cost have been reduced via the FHP below actual cost
- The FHP bill reductions are targeted so that the average Toronto Hydro customer consuming 750 kilowatt-hours would experience a total bill reduction of 25%

Delivery

- Covers the cost of high voltage transmission and low voltage distribution of electricity

Regulatory Charges

- Covers the cost of the IESO's operations amongst other items
- The cost of Rural or Remote Rate Protection and the Ontario Electricity Support Program ('the social programs') were shifted to the tax base as part of the FHP legislation

Debt Retirement Charge

- Charge to pay down historic electricity system debt
- Residential customers no longer pay the charge and it will be phased out for all customers in 2018

Clean Energy Adjustment

- New charge that will be added to bills in 2021 to pay for the financing costs and repayment of principal related to the FHP

8% Provincial Rebate

- Component of the FHP funded by the tax base

Monthly Bill Statement

Account Number:
000 000 000 000 0000 0

Meter Number:
0000000

Ontario's Fair Hydro Plan substantially lowers electricity bills for typical residential consumers. This includes the eight per cent rebate introduced in January 2017, and builds on previous initiatives to deliver broad-based relief on all electricity bills.

Your Electricity Charges

Electricity	
488 kWh Off-peak (lowest price) @ 8.700 ¢/kWh	0.00
127 kWh Mid-peak (mid price) @ 13.200 ¢/kWh	0.00
135 kWh On-peak (highest price) @ 18.00 ¢/kWh	0.00
Delivery	0.00
Regulatory Charges	0.00
Debt Retirement Charge	0.00
Your Total Electricity Charges	**0.00**
H.S.T.	0.00
8% Provincial Rebate	**(0.00)**
Total Amount	**$0.00**

Regulated Price Plan Rate Setting Process

- The Ontario Energy Board ("OEB") sets the regulated price for the commodity cost charged to most residential electricity customers via the Regulated Price Plan ("RPP")
- The OEB sets RPP prices based on: 1) time-of-use (On-peak, Mid-peak, and Off-peak) and 2) tiered (Tier 1 and Tier 2), to recover the forecast commodity cost of electricity (HOEP + GA)
- Variances between RPP prices and actual cost are recorded in a variance account and reflected in future RPP prices through a true-up process
- With the implementation of the FHP, the OEB now sets RPP prices below the forecast commodity cost to target a 25% reduction in the average bill
- This reduction to the RPP rate creates a shortfall for the IESO that is recorded in an IESO variance account which will be subsequently financed by the FHP financing entity
- RPP prices will gradually rise back to reflect the actual commodity cost of electricity
- The cost of financing and repaying the FHP debt will be charged to consumers via a separate charge, the Clean Energy Adjustment
- RPP prices set on June 22, 2017 for the period July 1, 2017 to April 30, 2018 are:

Time-of-Use RPP Prices	Off-Peak	Mid-Peak	On-Peak	Average Price
Price per kWh	6.5¢	9.5¢	13.2¢	8.2¢
% of TOU Consumption	65%	17%	18%	
Tiered RPP Prices	**Tier 1**	**Tier 2**		**Average Price**
Price per kWh	7.7¢	9.0¢		8.2¢
% of Tiered Consumption	54%	46%		

Table of Contents

Bill 132 Fair Hydro Plan Act, 2017 Legislation – Key Features

The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity

Rate Reduction Time Period

- From July 1, 2017 until April 30, 2019, electricity rates payable by a "regulated rate consumer" will be the rate that would result in a representative 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
  - For the 12 month period beginning May 1, 2018 the invoice amount established previously would increase by the rate of inflation in Ontario
  - Subsequent rate reductions beyond April 30, 2019 will be established by regulation

Regulatory Asset

- Each month, the IESO will determine the shortfall resulting from the rate reduction and record in a variance account. IESO has 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

Investment Asset

- IESO may transfer (sell) a specified portion of the regulatory asset to the financing entity established by OPG. The Trust is not obligated to purchase the asset. Upon the transfer, the financing entity acquires an interest in the investment asset crated by the IESO, representing a claim on the rate payers 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

Components of the legislation and accompanying agreements that are of interest to investors

- The trust is not obligated to purchase the regulatory asset from the IESO
- The various investment assets are pari passu
- **The province is providing a change in law protection to the trust; backstopping its obligations, in the event that changes to legislation negatively impact debtholders**

Legislative and Regulatory Overview

Authorizes Use of Securitization and Establishes Servicing Relationship between OPG, IESO and LDCs

General Powers and Authority of Legislation

- Creation of mechanism for deferral of costs by the IESO and establishment of the Regulatory Asset
- Creation of mechanism for absolute sale of Regulatory Asset to Financing Entity
- Definition of impacted customers ("specified consumers")
- Establishment of right to bill and collect a non-bypassable clean energy adjustment from future specified consumers
- Establishes principles of the Financing Plan
- Statement of non-impairment by the Crown and provision for change in law protection
- Allowance for the establishment of a bankruptcy-remote issuer
- Allowance for true-up mechanism

Fair Hydro Regulations

- Details on calculation of the fair allocation amount
- Details on eligible financeable amounts
- Additional details on clean energy adjustment assessment methodology (true-up mechanism):
  - Timing (mandatory semi-annual + more frequent as needed)
  - Calculation (accounts for expected charge-offs, billing delays and usage as well as any under / over collection in previous period)
- Additional details around servicing / billing mechanics (e.g., LDCs and IESO)

Responsibilities Under New Structure

OPG

- OPG to act as Financial Services Manager including the development and implementation of the Financing Plan
- Calculates the clean energy adjustment including semi-annual true-up

IESO

- Establishment of IESO as Servicer
- Aggregation of collections by LDCs and remittance to Trustee

LDCs

- Manage the billing and remittance of the non-by-passable charge
- Includes charge as a separate line-item on customer bills

Ontario Energy Board

- Must accept clean energy adjustment, and converts to volumetric based customer charge
- Allow for the charge to go into effect
- Review / approve ongoing Financial Services Manager fees and expenses

Purpose of the Act / Fair Adjustment

- The purposes of the Ontario Fair Hydro Plan Act, 2017 (the "Act") include ensuring that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers. Clean energy costs are the costs allocated to specified consumers as a result of Ontario's clean energy initiative.
- Specified consumers are mainly residential consumers but include some commercial consumers. Specified consumers receive a reduction in electricity bills, the "fair adjustment", under the Act
  - Specified consumers include those with a demand for electricity of not more than 50 kW, those that use not more than 250,000 kWh of electricity annually, and other persons as defined in the Act or prescribed by regulation
- Specified consumers fall into 2 rate categories:
  1. regulated rate consumer
  2. other specified consumers
- From July 1, 2017 until April 30, 2018, electricity rates payable by a regulated rate consumer will be the rate that would result in a representative regulated rate consumer 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% rebate in the Provincial portion of the HST). An equivalent rate reduction applies to other specified consumers
- Electricity bills for May 1, 2018 to April 30, 2019 for specified consumers cannot increase by more than the rate of inflation. Electricity bills for periods thereafter are to be determined by future regulation, although the Province has indicated that rate increases will be held to inflation for four years (until 2021)

Creation and Transfer of Regulatory Asset

- Each month, IESO shall determine the shortfall in what it receives from specified consumers as a result of the fair adjustment (as compared to what it would have received without the fair adjustment) and record this amount in a variance account. IESO will also include in the variance account its costs of financing that shortfall
- IESO will have the right to recover the balance recorded in the variance account from specified consumers and this right is 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 transfer a specified portion of the regulatory asset to a financing entity for a cash purchase price equal to the amount of such specified portion of the regulatory asset
- Upon transfer to the financing entity, the asset owned by the financing entity is considered an "investment interest", and IESO retains no further right, title or interest in the investment interest
  - in other words, creditors of IESO, whether at the time of transfer of the investment interest or thereafter, cannot claim against the investment interest
- The investment interest constitutes a current and irrevocable property right of the financing entity consisting of all rights of the IESO with respect to the variance account including the right to determine, impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers in accordance with the Act
  - Investment interest owner can grant a security interest in order to secure a funding obligation
- OPG is designated as financial services manager (the "Financial Services Manager") of the financing entity and will manage the investment interest on behalf of the financing entity
- A transfer of the variance account / regulatory asset is treated as an absolute sale of the IESO's right to recover the balance (and is not simply a security interest)

Clean Energy Adjustment

- The "clean energy adjustment" is the amount payable by specified consumers to repay the fair adjustment as well as costs to finance the fair adjustment including operating costs of the financing entity and funding of reserve accounts
- The clean energy adjustment is equal to the estimated finance amount in respect of the applicable reference period, plus the true up amount in respect of such reference period
- The estimated finance amount is an estimate of the amount payable by the financing entity in a reference period in respect of principal payments, interest cost, financing entity expenses and taxes, reserve account deposits and derivative payments
- A "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
- The Financial Services Manager will determine the clean energy adjustment payable by specified consumers for each reference period
- For all reference periods prior to the current reference period the true-up amount captures the difference between the finance amounts incurred by the financing entities and the clean energy adjustment collected from consumers. The true-up amount also includes other anticipated shortfalls, taking into account historical and reasonably foreseeable differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs and variations in billings due to variations in electricity consumption
- Electricity vendors are required to ensure that:
  - Invoices issued to specified consumers include a separate line item for the amount in respect of the clean energy adjustment; and
  - Clean energy adjustment amounts collected by specified consumers are deposited into a segregated account established for the purpose of receiving those amounts exclusively
- 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 bills on a pro rata basis
- The OEB will set rates in accordance with regulation to recover the variance account balance through the clean energy adjustment but the OEB cannot change the amount of the clean energy adjustment to be recovered

Clean Energy Adjustment – Proposed Billing and Collection Process

- Clean Energy Adjustment ("CEA") amounts for billing and collection purposes will be managed outside of the IESO's current settlement processes set out in the Market Rules for electricity invoice amounts
  - As such, CEA amounts will not benefit from the rights the IESO currently has under the Market Rules – ability to charge interest, draw down on prudential amounts, and borrow to cover shortfalls
  - Collections risk for CEA amounts are dealt with through statutory rights in the Act, the collection obligations of the IESO under the Master Sales and Services Agreement (to be finalized) and the ability to include amounts into the true up mechanism

1 Financial Services Manager

Determines the CEA (monthly) based on legislation and regulation and notifies the OEB of CEA for each reference period

IESO

Forecasts consumption volume of specified consumers for OEB

2 OEB

Determines volumetric rates[1] to invoice specified consumers to recover CEA expressed as a cent per kWh

3 Electricity Vendors

Invoice specified consumers for CEA amount by using volumetric rate set by OEB and report the amount invoiced and collected from consumers to the IESO

4 Specified Consumers

Must pay invoice from Electricity Vendors for CEA amount

5 Electricity Vendors

Must collect CEA amounts from specified consumers, hold amounts in a segregated account and remit CEA amounts to the IESO (separate from any other amount collected and remitted)

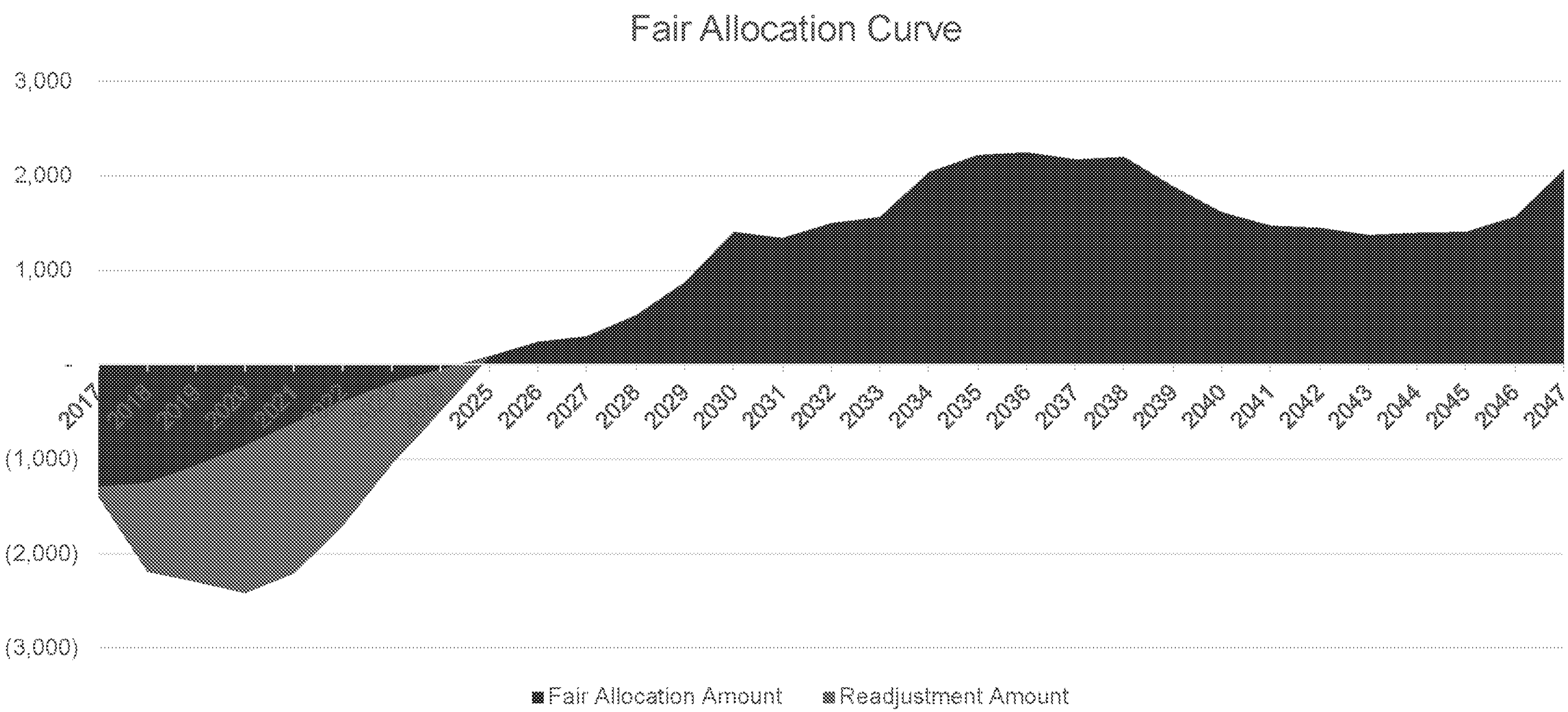
6 IESO

Must receive CEA amounts paid by Electricity Vendors, hold CEA amounts in a trust and remit the CEA amounts to the financing entities

[1] The rates will be determined by dividing the CEA amount by the forecasted energy consumption in the reference period by specified consumers

Fair Allocation Amount

- Before the first funding obligation is incurred by the financing entity to finance the acquisition of an investment interest, the Minister of Energy will calculate the fair allocation amount ("FAA")
  - The FAA is the estimated clean energy costs without consideration of the FHP compared to these same costs reallocated on the basis of estimated clean energy benefits to specified consumers in respect of each reference period and would include operating and financing costs of the FHP program debt
- The Minister of Energy will provide the fair allocation amount in respect of each reference period to the Manager
- A calculation of the fair allocation amount may be changed by such person as prescribed by the regulations. However, no such change shall affect any clean energy adjustment that arises because of any funding obligation that has been incurred before the change



The Financing Plan

- The Financial Services Manager will prepare the Financing Plan, to be used to evaluate whether potential funding obligations should be incurred by the financing entity to acquire an investment interest
- The Financing Plan will be prepared having regard to prescribed principles, including that funding obligations should be incurred so that the estimated finance amount that would become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period
- Until May 1, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in a reference period prior to then, subject to limited exceptions. In the interim period, it is expected that the IESO will be required, by a separate regulation, to fund all interest and other expenses of the financing entity (other than repayment of principal) up to May 1, 2021 and IESO will be able to recover this amount as a regulatory asset
- The 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. Each funding obligation incurred by the financing entity is, however, deemed by the Act to satisfy such requirement in any case
- The Financial Services Manager may establish and charge fees to the financing entity for its services, subject to OEB review and approval

Additional Statutory Protections

- No action or omission by the OEB, the Minister of Energy or the Crown and no regulation under the Act will be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.
- The clean energy adjustment may not be set off or by-passed by specified consumers.
- The assets and liabilities of the financing entity are deemed, under the Electricity Act, 1998 to not include the assets and liabilities of OPG, and vice versa.
- If any electricity vendor, the IESO or the Financial Services Manager has failed, or will fail, to comply with the Act or the regulations, the financing entity may apply to the Ontario court to make an order directing such party to comply and requiring compensation to be provided to the financing entity by such electricity vendor, the IESO or the Financial Services Manager.

Table of Contents

Background

On March 2nd the Ontario Government Announced its Fair Hydro Plan

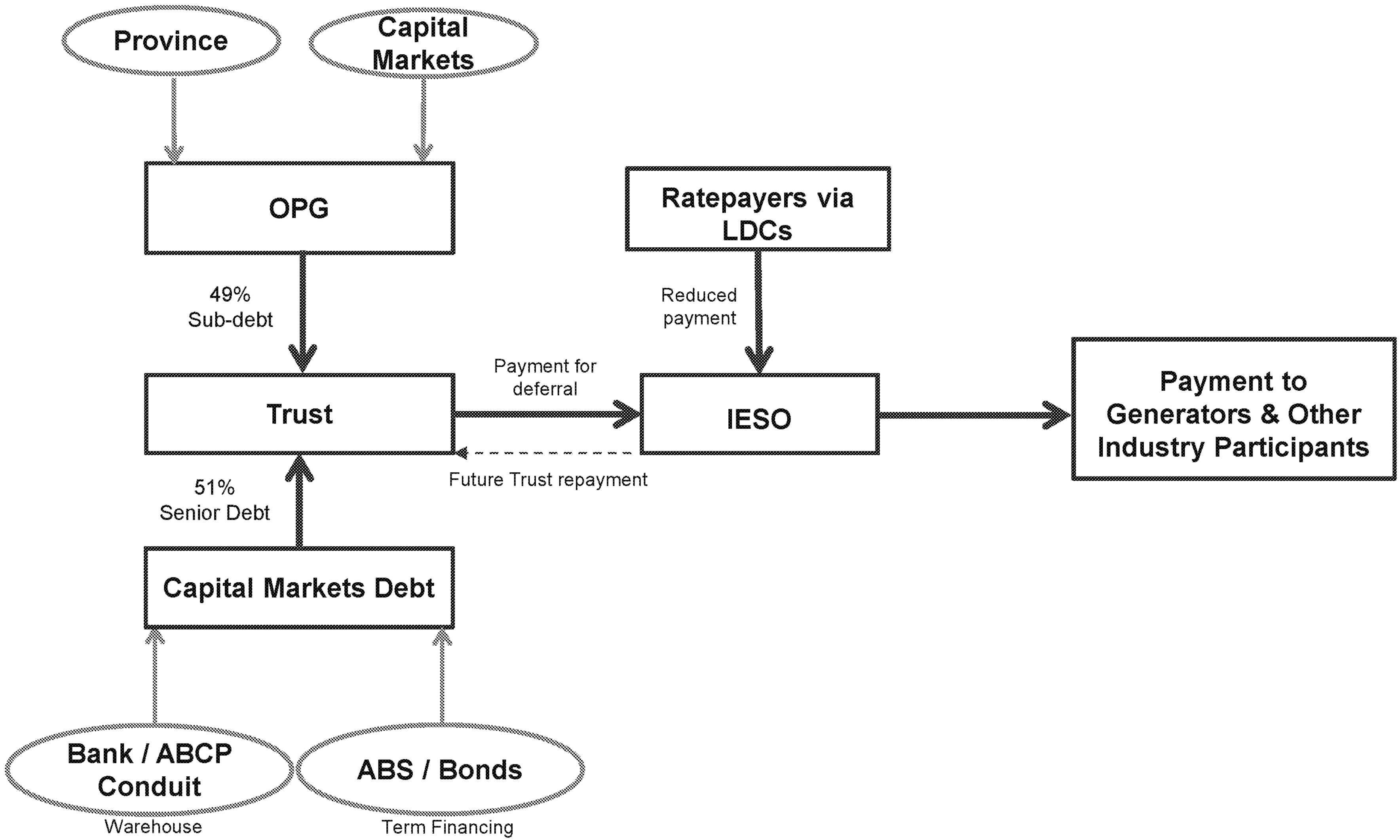
- The plan proposes to lower the average residential electricity bill by 25 percent
- In part by reallocating the charges paid by ratepayers for generation contracts and conservation programs over an extended period to match the expected life of the assets and the benefits of these initiatives
- In order to reallocate the payments, an OPG managed Financing Entity will use debt to purchase Regulatory Assets from the IESO and amortize them over a longer period
- This will lead to a near-term reduction in electricity bills followed by an increase in electricity bills over the long-term as interest and principal is repaid
- 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

Financing Entity Overview

- OPG has the mandate to create and oversee a Trust separate from regular operations, that will finance costs related to the Fair Hydro Plan and spread the recovery through 2047
- The OEB will set the Regulated Price Plan to meet the requirements of the Fair Hydro Plan
- The IESO will create a regulatory asset approximately equal to the difference between collections from ratepayers and payment obligations to generators and conservation
- The Trust will have the right, but not the obligation, to purchase these regulatory assets / investment interests to support the debt required
  - Upon purchase by the trust, the regulatory asset becomes investment interest for the trust
- The Trust will enter the capital markets 1-3 times per year to secure long-term investment interests

Given the province's commitment to reduce electricity bills, there is a requirement to establish a financing entity, the "Trust", that will finance the shortfall in revenues not received from the market

Transaction Diagram



Summary of the Transaction and Opinions

Framework & Principals	▪ Ontario Fair Hydro Plan Act, 2017, combined with the subsequent Ontario Regulation 2016/17 (General), has established the framework and principles for the Financial Services Manager ("OPG") to prepare Financing Plan to facilitate the implementation of the Fair Hydro Plan Program ▪ According to the Ontario Fair Hydro Plan Act, a key principle is funding obligations should be incurred such that the estimated maturities, subject to any refinancing, will reasonably align with the sum of fair allocation amount and readjustment amount, if any, during each of the reference periods - The fair allocation amount and readjustment amount are provided by the Ministry of Energy - Once debt is issued, it's recoverable through clean energy charges to future ratepayers
Proposed Required Legal Opinions	▪ **Bond Offering – Financing Entity/ Ontario Power Generation:** Financing Entity has necessary corporate power and authority to enter into key transaction documents, including: ▪ (i) Master Transfer and Servicing Agreement; ▪ (ii) Administrative Services Agreement; ▪ (iii) Management Agreement; ▪ (iv) Master Trust Indenture and Related Supplemental Indenture; and ▪ (v) Underwriting Agreement; ▪ **Master Transfer and Servicing Agreement – IESO:** IESO has necessary corporate power and authority to enter into the Master Transfer and Servicing Agreement and other Program Agreements to which it is a party ▪ **Financing Entity/OPG Non-Consolidation:** Under Canadian law, in a bankruptcy of OPG, the assets and liabilities of the Financing Entity would not be consolidated with the assets and liabilities OPG ▪ **Provincial Protection and Assurances Agreement ("Indemnity Agreement"):** Province has necessary power and authority to enter into and perform its obligations under the Indemnity Agreement

Structural Features

Change of Law Protection Agreement	• Upon the occurrence of a Protection Event, the Province of Ontario will have an obligation to make payments on behalf of the SPV when they become due and payable • Any of the following would constitute a Protection Event: i. the Legislature repeals or amends the Ontario Fair Hydro Plan Act, 2017 (the "Act"), or any portion thereof ii. the Legislature enacts or amends any other statute iii. the Lieutenant Governor in Council repeals the Regulation made under the Act, or any portion thereof iv. the Lieutenant Governor in Council, a minister of the Crown, an official of the government or a board or commission all the members of which are appointed by the Lieutenant Governor in Council makes or amends any "regulation" (as defined in Part III of the Legislation Act, 2006) v. there is a change in the organization or structure of the IESO or Ontario's electricity market undertaken at the initiative of the Province or an entity controlled by the Province – In the case of (i) to (v) that adversely affects (a) the ability of the SPV to receive amounts on its investment interest so that it can pay on the notes or (b) the Change of Law Protection Agreement vi. a court determines that all or a portion of the Act or the Regulation is invalid in a way that adversely affects the ability of the SPV to receive amounts on its investment, so that it can pay on the notes • The Change of Law Protection Agreement will continue for as long as any notes remain outstanding
LDC Commingling Risk	• The IESO will provide a letter of credit in an amount equal to anticipated collections of the clean energy adjustments by all unrated, or non-investment grade rated local distribution companies ("LDC's")
Payment of Carrying Costs During The Moratorium Period	• During the moratorium period, the IESO will be required by regulation to pay when due, all interest and other carrying costs owing (collectively, the "Carrying Costs") • The Carrying Costs paid or payable by the IESO will be recoverable by the IESO through the global adjustment ("GA") charge • It is expected that the regulations will provide that Carrying Costs fronted by the IESO will have priority to amounts payable by the IESO to market participants

Financing Strategy – Funding Alternatives

- There are several potential funding sources that OPG can consider to structure the overall financing program, including securitization (issued in Canada or the U.S.), bonds, bank market financing, and subordinated debt
- Warehouse financing (ABCP or bank debt) and OPG sub-debt will be used periodically to fund investment asset purchases from the IESO (monthly IESO funding shortfalls anticipated to be ~$200 million)
  - Fair Hydro Trust will periodically refinance the warehouse facility through the issuance of term debt
  - It is expected that the warehousing will be provided via a syndicate of ABCP and bank lenders
- It is anticipated that the first term debt takeout will be completed in the fall of 2017
  - Aggregate financing for the first offering could be ~$800 - $1,400 million, with senior-debt of about $400 - $700 million
- Both Canadian and U.S. term debt markets will be considered but decision on which markets to access will be determined on a deal by-deal-basis
  - The initial transaction will only be offered in Canada
- Term debt can take the form of bullet bonds or could be issued as amortizing bonds

ABCP Conduit	• R-1(high) / P-1 rating confirmation will be required from DBRS and Moody's pre-closing • Used for periodic funding of regulatory asset purchases from the IESO
Canadian Term ABS / Bond	• Two explicit long-term ratings required; AAA rating will be targeted
Subordinated Debt	• Subordinated notes will provide credit enhancement for senior debt (ranks behind senior debt in cash flow waterfall) • Two explicit long-term ratings required

Simplified Trust Structure

- The Fair Hydro Trust will fund regulatory asset purchases through the issuance of senior and subordinated secured debt
  - Senior debt (51%) will be sourced monthly from committed warehouse facilities (bank and / or ABCP), and the periodic issuance of term debt
  - Subordinated debt (49%) will be provided by OPG; 44% of which will be obtained from an OEFC equity injection and 5% from OPG via external markets
  - Senior and subordinated principal will be scheduled to amortize to maintain the original proportions, shortfalls to be allocated first to the subordinated debt

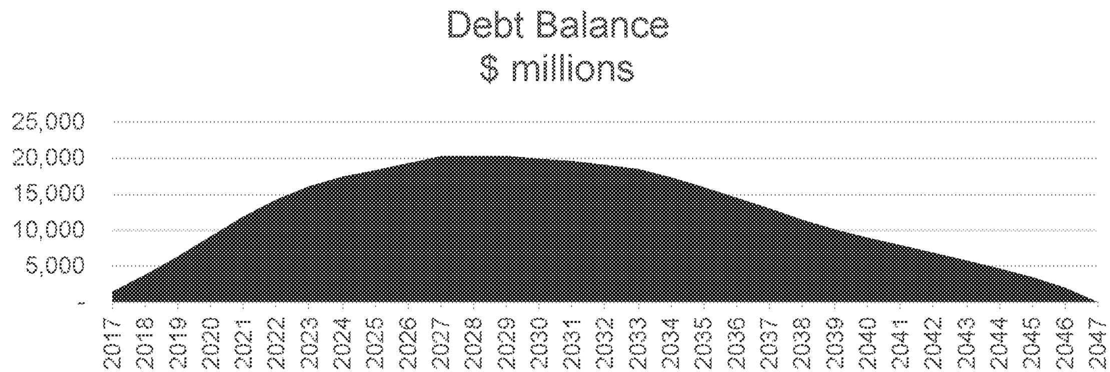
<u>Senior Debt (Public Markets)</u>
Accessed from:
1) Canadian Securitization Program
2) U.S. Market Program

<u>Subordinated Debt</u>
- Provided to Trust by OPG via Ontario government

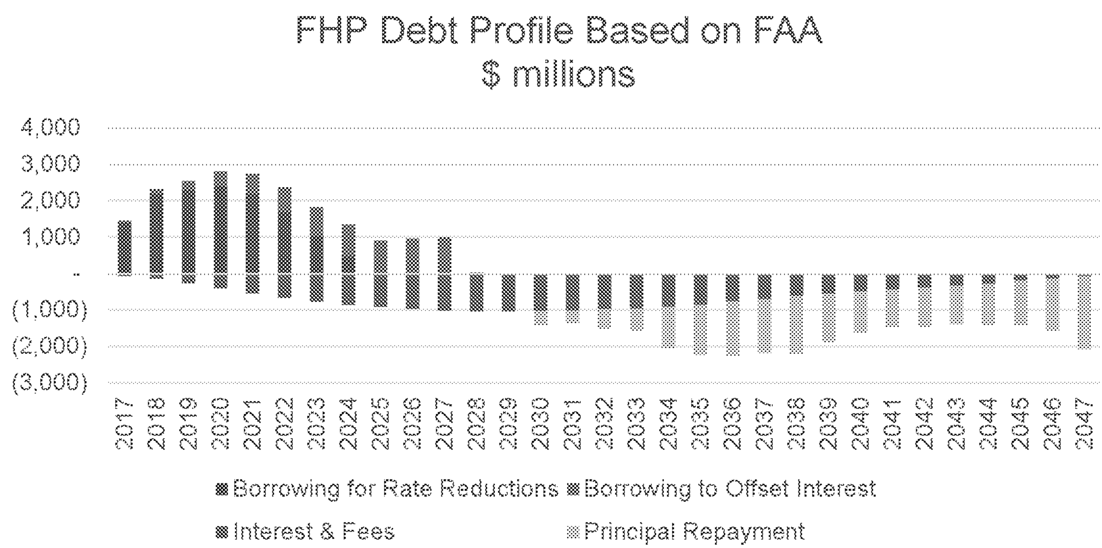
<u>Junior Subordinated Debt</u>
- OPG Injection (5%)
- Province to Trust by OPG via Ontario government (5%)

Debt Profile based on Fair Allocation Amount

- Based on the Fair Allocation Amount and the Province's electricity bill reduction targets, the following debt profile for the program is expected, peaking at about $20 billion by 2027 and fully paid off by 2047



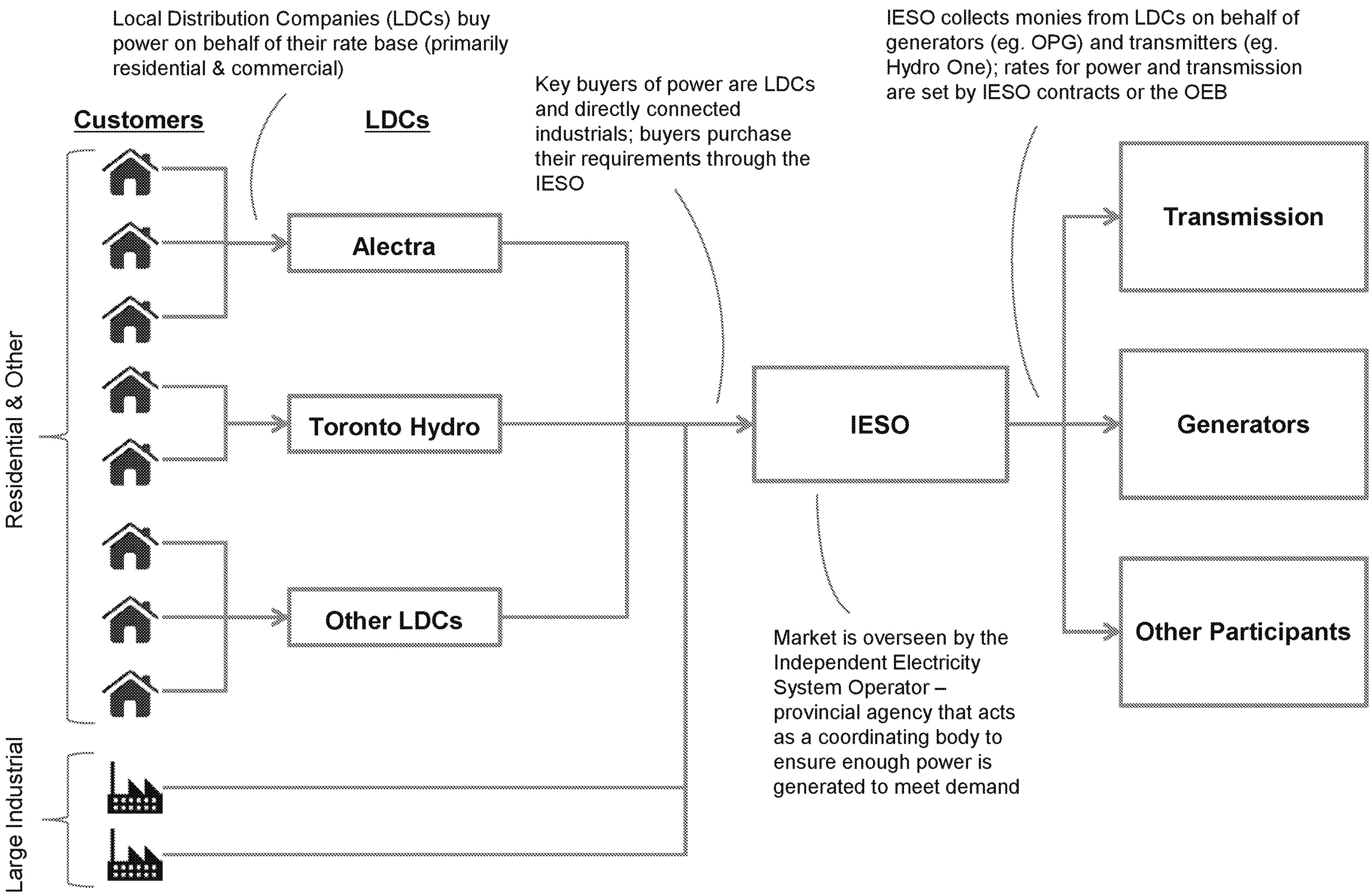
- Various tranches of debts will be issued periodically during the period of 2017 - 2028, which will mature over the period of 2029 - 2047.



Indicative Allocation of Servicing Role and Responsibilities

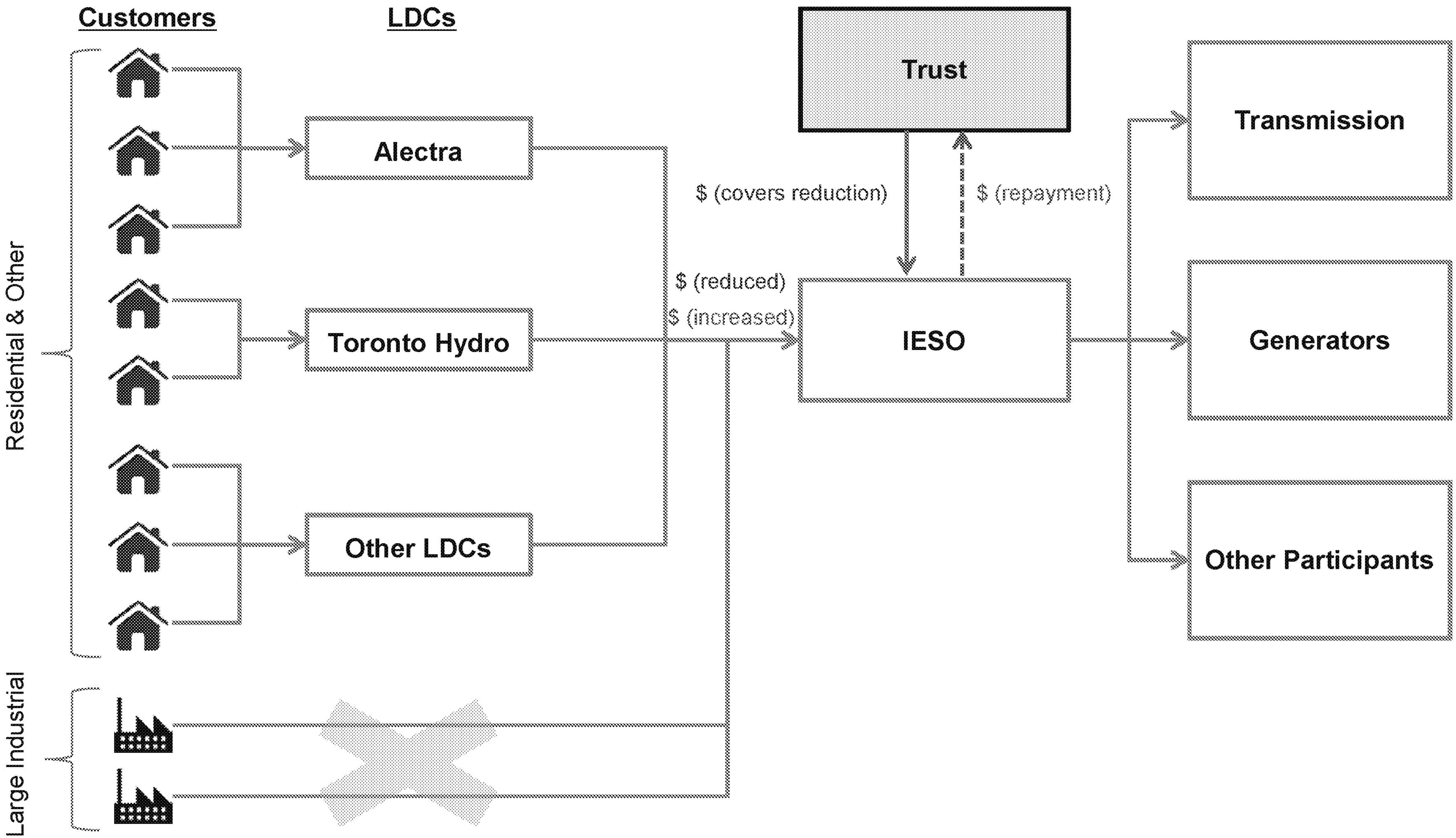
	OPG / Financing Entity	IESO	LDC
Management of Ongoing Issuance	✔		
Meter Reading			✔
Billing			✔
Collections			✔
Cash Management		✔	
Remittance of Charge to Trustee	✔	✔	
(Responding to inquiries by customers if practicable, or forwarding such inquiries to OPG)	✔		✔
Ongoing Filings for Trustee and Rating Agencies	✔		
True-Up Calculation	✔	✔	

Flow of Funds Through Key Market Participants



Addition of the Trust

In order to facilitate a ratepayer discount, the Trust is introduced to pay the difference to the IESO



Indicative Waterfall

Allocation of Collections

Taxes, Trustee Fees & Operating Expenses (to lawyers, accountants, IESO, rating agencies, etc.)

Interest on Senior Notes

Scheduled Principal – Senior

Replenishment of Reserve Accounts for Senior Notes

Financial Services Manager fees (OPG)

Interest on Subordinated Notes

Scheduled Principal – Subordinated

Interest on Junior Subordinated Notes

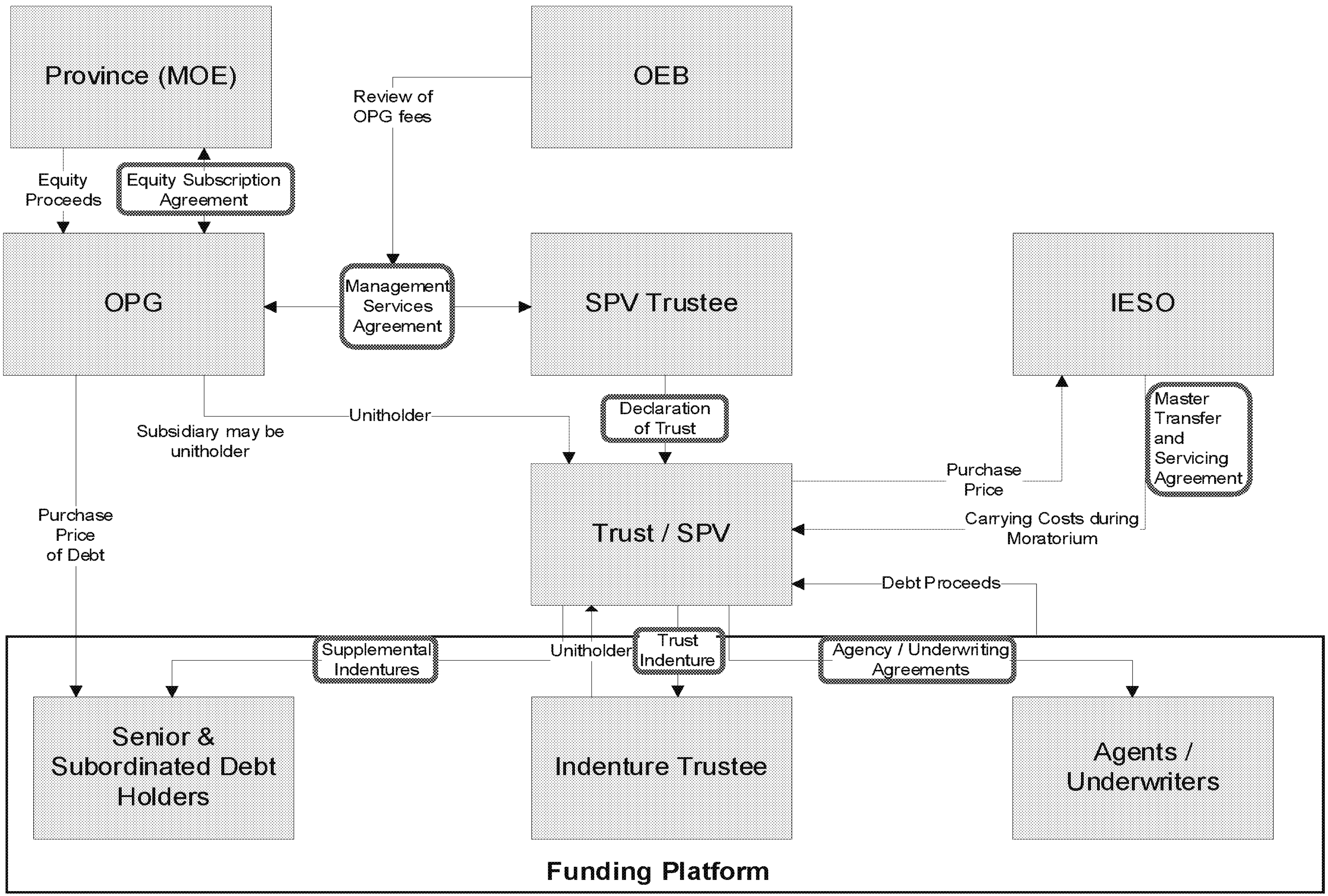
Scheduled Principal – Junior Subordinated

Potential Reserve for Subordinated Notes

Excess Funds Account (amounts available for next payment period)

Table of Contents

Fair Hydro Trust – Legal & Structural Framework



Declaration of Trust (“DoT”)

- **Parties**:
  - A third party trustee of the financing entity trust (the “**Issuer Trustee**”) will create the trust by a declaration of trust and delegate all of its powers as trustee of the financing entity trust to OPG pursuant to the Management Agreement
- **Establishment of Trust**: The DoT establishes the trust to carry on activities for the benefit of unitholders (which will be a subsidiary of OPG, subject to the Indenture Trustee holding a single unit)
- **Permitted Activities**: The permitted activities of the financing entity trust would be limited to:
  - purchasing investment interests from 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 under the Act
- **Removal of Issuer Trustee**: the Issuer Trustee may be removed by unitholders with 90 days written notice
- **Resignation of Issuer Trustee**: the Issuer Trustee may resign on 120 days’ written notice to unitholders, the Indenture Trustee and the applicable rating agencies, provided that no resignation will be effective until a replacement acceptable to the unitholders and the Indenture Trustee has been appointed
- **Net Income**: Net income of the financing entity trust each year will be fully distributed to unitholders, either in cash or promissory notes (to ensure no taxable income)
- **Indenture Trustee**: The consent of the Indenture Trustee will be required to wind-up the financing entity trust or institute any voluntary insolvency proceedings with respect to the financing entity trust

Management Agreement

- **Parties**: Issuer Trustee, on behalf of the financing entity, and OPG, as Manager
- **Delegation of Management of Financing Entity**: Issuer Trustee delegates to the Manager all powers and duties of managing the financing entity, including:
  - negotiating and executing program agreements;
  - maintaining accounts and banking records;
  - preparing, in accordance with applicable securities laws, any offering documents to be furnished by the financing entity to prospective purchasers of funding obligations;
  - arranging for compliance by the financing entity with any continuous disclosure obligations;
  - arranging for the retention of legal counsel, accountants and an auditor;
  - preparing financial statements; and
  - paying taxes on behalf of the financing entity
- **Incurrence of Funding Obligations**: Manager will determine how and when to incur funding obligations to acquire investment interests or refinance existing funding obligations
- **Standard of Care**: Manager will perform its duties diligently and in conformity with the financing entity's obligations under the program agreements
- **Fees**: Manager will be entitled to a base fee and an incentive fee for its services, subject to OEB review and approval. The priority of the Manager's entitlement to fees will be subject to the payment waterfall in the MTI
- **Resignation/ Termination**: Manager may not resign from its duties or terminate the Management Agreement as long as funding obligations of the financing entity are outstanding. The Manager may be terminated by the Issuer Trustee, with the consent of the Indenture Trustee, or by the Indenture Trustee in accordance with the MTI.

Master Transfer and Servicing Agreement (“MTSA”)

- **Parties**: IESO and the financing entity, acting through OPG
- **Transfers of Regulatory Asset**: IESO may offer, no more frequently than monthly, to transfer to the financing entity its right, title, and interest in, to, and under the specified portion of the regulatory asset. The financing entity has the right, but not the obligation, to accept IESO’s offer.
- **IESO Servicing Duties**: IESO will be responsible for servicing the investment interest, all in accordance with its duties under the regulations, including:
  - establishing a segregated account to be used for the sole purpose of collecting clean energy adjustment amounts from electricity vendors
  - remitting to the financing entity on a monthly basis clean energy adjustment amounts collected (if IESO loses its investment grade rating, daily remittances are required)
  - providing all information received by electricity vendors with respect to clean energy adjustments billed and collected
  - forecasting electricity consumption of specified consumers and providing such forecast to the OEB
- **Fees**: IESO will not be entitled to receive any compensation from the financing entity in connection with its servicing duties under the MTSA.
- **Servicing Standards of IESO**: While IESO will not be guaranteeing that clean energy adjustment collections from electricity vendors will equal the amounts invoiced to them, IESO will follow standards, policies and procedures in performing its servicing duties that are customary for an electricity market operator and administrator that regularly performs settlement services.
- **Interim Period Finance Payments**: Until May 1, 2021, no clean energy adjustment amounts are expected to be included on invoices sent to specified consumers. During this period of time, the IESO will be required, by a separate regulation, to fund all interest and other expenses of the financing entity (other than repayment of principal) and IESO will be able to recover this amount as a regulatory asset (to the extent that this additional expense of the IESO is not transferred to a financing entity as an additional investment interest).
- **IESO Letter of Credit**: As security for the obligations of the electricity vendors under the Act, once clean energy adjustment amounts are being invoiced to specified consumers, IESO will, if requested by the financing entity, provide the financing entity with a letter of credit in an amount equal to approximately (one month) of clean energy adjustment amounts expected to be invoiced to specified consumers by all non-investment grade rated electricity vendors. If acceptable to the financing entity, IESO may provide an equivalent performance guarantee in substitution of the letter of credit.
- **Servicer Defaults**: The MTSA sets out specific “Servicer Defaults”. Upon the occurrence of a Servicer Default, the [Indenture Trustee/financing entity] will be entitled to appoint a replacement servicer who will perform IESO’s duties as servicer under the MTSA.

Master Trust Indenture ("MTI")

- **Parties**: The financing entity, as issuer, and a third party indenture trustee, as indenture trustee on behalf of all Specified Creditors (the "**Indenture Trustee**")
  - "Specified Creditors": all persons who may have contractual claims against the financing entity (including holders of senior and subordinated commercial paper and notes, senior and subordinated lenders, hedge counterparties, credit enhancers, liquidity providers, the Manager, IESO, the Indenture Trustee and the Issuer Trustee)
  - All Specified Creditors would be required to agree in their respective agreements with the financing entity to be bound by the terms of the MTI applicable to Specified Creditors including the priority provisions and to limit recourse to the assets of the financing entity
- **Incurrence of Funding Obligations**
  - Financing entity may incur funding obligations under a variety of instruments including:
    - Note issuances under supplemental indentures
    - Borrowings under credit agreements
    - Purchase of notes under note purchase agreements
    - Letters of Credit/Guarantees under credit enhancement agreements
    - Liquidity loans under liquidity agreements backing short term notes
- **Conditions Precedent**
  - Prior to incurring additional funding obligations, the financing entity confirms to the Indenture Trustee and each rating agency that:
    - the incurrence of such additional obligations will not cause an adverse effect
    - the incurrence of such additional obligations is materially consistent with the Financing Plan
    - the estimated finance amount that would become due during the applicable reference period is expected to reasonably align with the fair allocation amount for such reference period
  - It will also be a condition precedent that each rating agency confirm that the issuance of such additional funding obligations will not result in a reduction or withdrawal of any existing ratings of outstanding funding obligations

Master Trust Indenture ("MTI")

- Obligations Secured
  - Security is granted over all assets of the financing entity to the Indenture Trustee for the benefit of the Specified Creditors including the financing entity's investment interest and the accounts described below
  - All collections under the MTSA are required to be deposited into the collections account held by the Indenture Trustee. However, pursuant to the terms of a funding obligation agreement, other accounts such as finance reserve accounts, capital reserve accounts and supplemental reserve accounts may be established and funded in accordance with the waterfall provisions in the MTI
- Subordination
  - MTI provides for three different classes of obligations in the following order of priority: (i) senior, (ii) associated subordinated, and (iii) junior subordinated
- Priority
  - MTI contains a priority of payments among Specified Creditors both before and after the occurrence of an event of default:
    - Prior to an event of default, the waterfall provisions are as follows:
      - taxes and trustee fees
      - fees, expenses and reimbursement of Administration Agent
      - interest and fees on senior obligations
      - scheduled principal on senior obligations
      - replenishment of accounts established for senior obligations
      - the Manager's fees
      - interest and fees on associated subordinated obligations
      - scheduled principal on associated subordinated obligations
      - replenishment of accounts established for subordinated obligations
      - interest and fees on junior subordinated obligations
      - scheduled principal on junior subordinated obligations
      - replenishment of accounts established for junior subordinated obligations
      - excess to be held in collections account for distribution on the succeeding payment date
    - After an event of default, the payment priorities change to direct all amounts that would otherwise be payable on associated subordinated and junior subordinated obligations to pay senior obligations first

Master Trust Indenture ("MTI")

- Early Amortization
  - Early amortization events will include the occurrence of a scheduled final payment date on notes, the financing entity becoming an investment company, the insolvency of IESO or the Manager and any other additional early amortization events set out in a funding obligation agreement
  - An early amortization event will result in a modified repayment schedule for the outstanding funding obligations
- Events of Default
  - Events of default will include payment defaults, representation and covenant breaches (subject to applicable cure periods), insolvency events and any other additional events of default set out in a funding obligation agreement
  - Upon an event of default, the Indenture Trustee has the right to:
    - replace OPG as Manager
    - make an order to court for payment of amounts in respect of the clean energy adjustments in accordance with the Act
    - appoint a receiver and take possession of the collateral
- Proposal on Acceleration
  - Generally, clean energy adjustments are at the level required to repay interest plus principal when due. However, clean energy adjustments cannot be increased to the level required to repay all outstanding principal immediately following its acceleration
  - A proposal is being discussed (but not yet settled) that would allow for acceleration under the debt documents but, if acceleration has occurred, would cap (by regulation) the clean energy adjustments for any reference period at the greater of (x) clean energy adjustments reflecting principal that would be due during that reference period without acceleration, and (y) the fair allocation amount for that reference period
  - Following an event of default, available clean energy adjustments would be applied to principal in the following order of priority:
    - first all short term or revolving senior debt on a pari passu basis;
    - second, all other senior debt on a pari passu basis;
    - third, all subordinated debt on a pari passu basis; and
    - fourth, all junior subordinated debt on a pari passu basis

    Non-principal obligations will also be in the waterfall in positions consistent with this ranking
  - Notwithstanding the cap on clean energy adjustments, the subordination of subordinated debt and junior subordinated debt would advance the repayment schedule of the senior funding obligations

Change of Law Protection Agreement

- Parties
  - Province of Ontario (as represented by the Ministers of Energy and Finance), as obligor, in favour of the Indenture Trustee on behalf of the Specified Creditors, and acknowledged and agreed to by the financing entity
- Specified Claims
  - Payment obligations of the financing entity that are secured under the MTI and that are approved as described under Obligor Approval
- Obligor Approval
  - The process by which a Specified Claim will become subject to the Change of Law Protection Agreement will be determined by the Province in negotiation with the financing entity
- Term
  - The Change of Law Protection Agreement will continue for as long as any Specified Claim remains outstanding
- Mandatory Payment
  - Upon the occurrence of a “Protection Event”, the Indenture Trustee will have the right to require the Province to pay the Specified Claims owing by the financing entity when they become due and payable (without acceleration).
- A “Protection Event” means any of the following:

a. the Legislature repeals (and does not replace on an equivalent basis) or amends the Act in whole or part; or

b. the Legislature enacts or amends any other statute; or

c. the Lieutenant Governor in Council repeals (and does not replace on an equivalent basis) or amends the regulations made under the Act in whole or part; or

d. the Lieutenant Governor in Council, a minister of the Crown, an official of the government or a board or commission appointed by the Lieutenant Governor in Council makes or amends any “regulation”; or

e. there is a change in the organization or structure of the IESO or Ontario’s electricity market undertaken at the initiative of the Province or an entity controlled by the Province, in each case of (a) to (e) above, that (materially and) adversely affects (i) the ability of the financing entity to receive amounts on its investment interest so that it can pay Specified Claims in accordance with their terms, or (ii) the Change of Law Protection Agreement or any of the agreements under which Specified Claims arise, other than if the Indenture Trustee has confirmed in writing that the effect under such agreements is otherwise acceptable, or

f. a court determines that all or a portion of the Act or the regulations is invalid in a way that (materially and) adversely affects the ability of the financing entity to receive amounts on its investment interest so that it can pay Specified Claims in accordance with their terms

Change of Law Protection Agreement

- Optional Assumption
  - At any time following the occurrence of a Protection Event, the Province shall be entitled (but not obligated) to assume the financing entity's obligations in respect of Specified Claims as obligor and debtor]
- Limits
  - The Province shall not be obligated to pay or indemnify the Indenture Trustee for consequential, special or punitive damages, or for economic loss or loss of profits
- Priority of Payments
  - The priority of the Specified Creditors to any payment made by the Province under the Change of Law Protection Agreement shall be governed by the waterfall provisions in the MTI (as described above)
- Subrogation
  - Upon paying a Specified Claim to the Indenture Trustee on behalf of the Specified Creditors, the Province as guarantor shall have rights of subrogation, including becoming entitled to all of the applicable Specified Creditors' rights and interests under and in respect of the Specified Claim, including the security interest in each related investment interest and related property of the financing entity

Table of Contents

Financial Services Manager - OPG

The Fair Hydro legislation names OPG, as the Financial Services Manager

Why OPG

- One of the most experienced and largest generating companies in Canada, OPG has a broad set of relationships and capabilities that make it a valuable resource to the Province of Ontario
- Experienced in successful complex financing arrangements of large capital projects (such as OPG's recently completed Lower Mattagami project)

OPG's Role as Financial Services Manager

- Prepare a Financing Plan to evaluate whether potential funding obligations should be incurred for the purposes of acquiring an investment asset
- Administer the investment asset on behalf of the financing entities
- Ensure that funding obligations are incurred in a manner that is consistent with the Financing Plan
- Establish and charge fees for Financial Management Services
- 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

IESO Overview

The Roles and Responsibilities of the Independent Electricity Market Operator (IESO)

The IESO

- The IESO is a not-for-profit corporation established under the Electricity Act, 1998
- Although the IESO is not an agent of the Province of Ontario and its liabilities are not guaranteed by the province, the province appoints the board of directors. The province is effectively, if not legally, the IESO's owner

Key Responsibilities of The IESO Include:

- Managing the power system in real-time, i.e. balancing the supply (generators) and demand (users)
- Managing the settlement process, i.e. collecting funds from the users and paying the suppliers
- Establishing market rules on how the market participants operate in the market
- Forecasting electricity demand and the adequacy and reliability of supply in the short, medium and long term
- The IESO is responsible for determining the amount of electricity that is used by the consumers of power, billing them for the commodity cost (including global adjustment), transmission costs and other approved charges, and paying the generators and Hydro One for their supply costs.

The IESO's Role in the Billing and Collection Process

- Customers (LDC's, industrial loads, etc.) are billed on a monthly basis
- Invoices are available once a month, published ten business days after the end of the calendar month
- Customers are required to pay invoices within two business days of receiving their invoice
- The IESO pays the suppliers of electricity two days later

The IESO

Servicing Role and Responsibilities – Fair Hydro

Key Credit Strengths

- The IESO is at the center of the market, as buyers purchase power from the IESO and sellers of power are paid by the IESO
- IESO is effectively a clearing house and establishes the terms by which buyers are able to purchase power
- IESO Market Rules - Chapter 2 of the Market Rules outlines the parameters for Participation or “the procedures pursuant to which persons may apply to the IESO for the authorization to participate in the IESO-administered markets or to cause or permit electricity to be conveyed into, through or out of the IESO-controlled grid”
- The credit conditions are outlined in Chapter 2 and involves the “prudential support” provided by the LDC
- Based on public credit ratings or credit payment history, a buyer of power may be required to post collateral to support their projected exposure; LDCs, given their strong credit structure are awarded higher unsecured purchase limits
- The Prudential Rules are reviewed every few years and maintain a conservative stance regarding collateral

Strong Credit History

- Approximately $22 billion in costs flow through the Ontario electricity system each year (60% goes to generators)
- Since the beginning of the IESO open market in 2002, there have been 20 defaults
- Only three defaults could not be fully covered by the collateral posted by the defaulters
- Of the three defaults that resulted in “default levies” to the market participants, the total the levies were under $1 million
- Default levies are allocated 50% to Buyers of Power and 50% to the Sellers of Power, based on their usage/generation

The IESO

The IESO's Role in the Clean Energy Adjustment

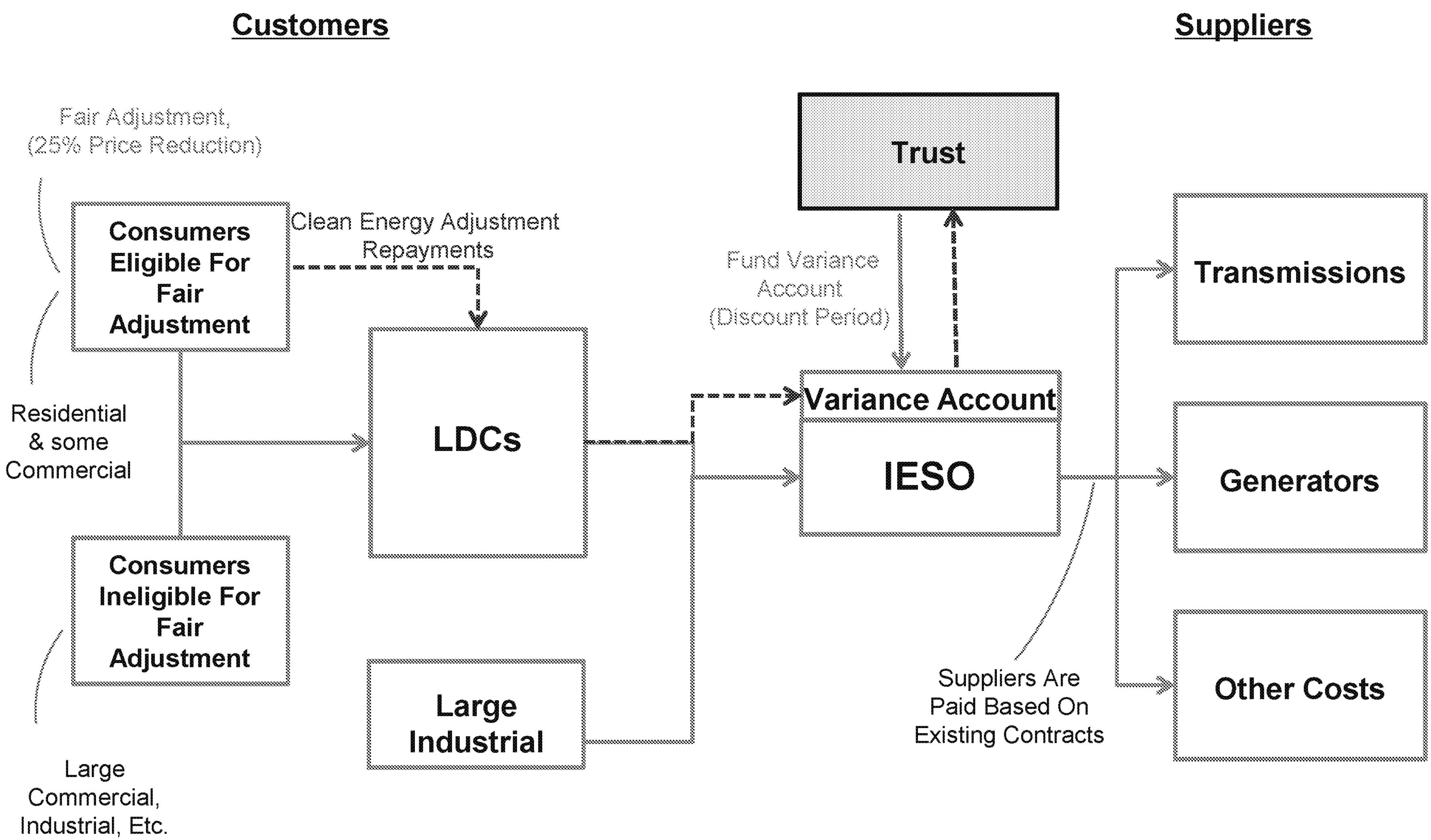
- Each month that "specified consumers" receive a reduction in their bills the IESO will record a shortfall which will be recorded in a variance account and this shortfall needs to be funded.
- The IESO will have the right to recover the balance recorded in the variance account from the specified consumers and this right will be a regulatory asset under the Act.
- The IESO may from time to time transfer a specified portion of the regulatory asset to a financing entity established by OPG
- Once the clean energy adjustment becomes a charge on the specified consumer bill, those amounts received by the IESO will be held in trust for the investment interest owners. The specified consumers will pay their bills through their LDC, and the LDC will pay the IESO.

Ontario Fair Hydro Plan Act

- Bill 132, the act to enact the Ontario Fair Hydro Plan Act, 2017 (the Act) was passed in June 2017. The Fair Hydro Plan added additional rights and responsibilities to the IESO.

Flow of Funds

The Trust will fund a portion of the discount on electricity for eligible consumers. During the repayment period, the same eligible consumers will fund the Clean Energy Adjustment Program Repayments.



LDC Overview

Description

The Local Distribution Companies (or LDCs) are key participants in the electricity market in Ontario. There are currently approximately 70 LDCs in Ontario and they now represent approximately 80% of the total volume of electricity purchases. Large Industrials represent the other key buyers of power. Within the LDCs there are various classes of consumers. For the purpose of the Fair Hydro Plan Act, the class of customer that will receive the Fair Adjustment is described as "specified consumers" or, in general, residential and other lower use customers. Approximately 60% of the LDC's volume will receive the Fair Adjustment

License Requirements

- The Ontario Energy Board (OEB) has the authority to issue a distribution licence and prescribes the licence requirements. The OEB has the authority to approve and fix rates for distribution charges that are the main revenue source to the LDC. As well, the LDC is required to charge its customers for the following amounts:
- Commodity Charge (pass-through to IESO)
- Transmission Rate (pass-through to IESO)
- Wholesale Market Support Charge (pass-through to IESO)
- Distribution Rate (costs incurred by the LDC in delivering electricity to its customers and an allowed return on capital)
- Amounts related to the Clean Energy Adjustment as agents of the investment interest owners (i.e. entities that hold the regulatory asset that had financed the discounts)

LDC Overview

Key Credit Strengths

- The majority of power purchased in Ontario is by LDCs on behalf of residential and commercial customers; LDCs make up approximately 80% of the market
- The typical customer bill includes charges for the power itself (which goes to the generators), transmission (e.g. Hydro One), to the LDC itself (for local distribution), and for other market charges (e.g. IESO costs)
- LDC rates are governed by the OEB rate setting process; LDCs under the OEB's Retail Settlement and Distribution System Code may obtain a security deposit or letter of credit from their customers to mitigate risk of payment default
- LDCs are able to include an amount for accounts receivable write-offs within operating expenses for rate setting purposes. They can also apply for any extra-ordinary write-offs as a variance account adjustment to be considered by the OEB
- Approximately 10 LDC's have credit ratings through DBRS or S&P; the ratings are generally A, based on very low industry risk of regulated utilities and supportive regulatory framework;
- The OEB deems the capital structure of a LDC to include 40% equity and sets an allowed rate of return

Strong Credit History

- Given the strong credit mitigation measures available to the LDCs, a review of 8 LDCs (varied in size and geographic region), indicated a similar and very low loss rate
- LDC data was based on the financial statements of Toronto Hydro, North Bay Hydro, Horizon Utilities, Enersource, Collus PowerStream, Energy Plus, PowerStream, and Hydro One

	3 Year Average	5 Year Average	10 Year Average
AFDA / AR	3.70%	3.18%	3.86%
AFDA / Sales	0.41%	0.33%	0.36%
Write-Off / Sales	0.25%	0.27%	N/A

AFDA: Allowance for doubtful accounts

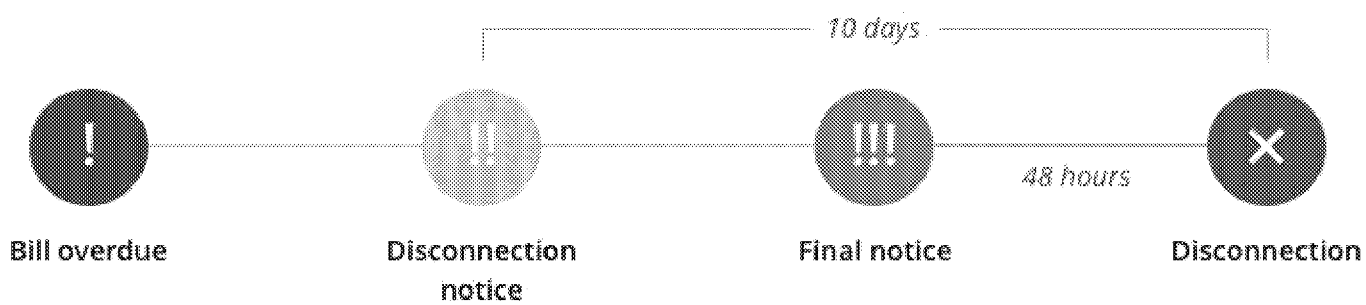
LDC Overview

Prudential Requirements

- The LDC's are also required as market participants in the IESO administered market to satisfy and maintain prudential requirements with the IESO for the amounts owed as per the stated market rules

Disconnection Policies

- Failure to pay an electricity bill to an electricity provider such as an LDC can result in disconnection of service as per OEB rules. Power can also be disconnected for failure to pay a security deposit
- The LDC must provide at least 10 days notice prior to disconnecting



LDC Default History

- From information obtained from the IESO, since market opening, the IESO has had LDCs' default on their payments. However, none of the LDCs' defaults resulted in any default levy to other market participants. That is, the defaults were related to payment timing issues or the collateral posted by the LDC covered any necessary amounts owing
- Given the strong credit protection measures available to the LDC (security deposits, disconnection) and the ability for prudently incurred losses to be recovered via the OEB rate setting process, the LDCs within Ontario have had a strong credit history

Table of Contents

Key Risks & Mitigants

The amounts financed by the investment interest owners require eventual repayment by the customer class identified as "specified consumers". The timeframe for collecting the amounts owed from the "specified consumers" can extend out to 2047. The key risks to the repayment stream include:

- Defaults (LDC, Hydro One, IESO)
- Under Collections
- Constitutional Changes / Political Risk
- Size of charge relative to customer bill

Default Risks of the Various Market Participants within the repayment stream

- Specified Consumers pay their LDC, the LDC forwards the funds to the IESO, and the IESO forward the funds to the Investment Trust and the Investment Trust repays the investors

LDCs and Mitigation Actions

- OEB rules allow the LDCs to collect security deposits from customers and allow for disconnection of service for non-payment of bills
- A review of 8 LDCs (varying in size and geographic region), indicated a similar and very low loss rate on collections. The data based on the financial statements of Toronto Hydro, North Bay Hydro, Horizon Utilities, Enersource, Collus PowerStream, Energy Plus, PowerStream, and Hydro One show very low loss rates:

	3 Year Average	5 Year Average	10 Year Average
AFDA / AR	3.70%	3.18%	3.86%
AFDA / Sales	0.41%	0.33%	0.36%
Write-Off / Sales	0.25%	0.27%	N/A

AFDA is Allowance for Doubtful Accounts, individual LDC data included where available

- The LDCs can also include expected account receivable losses in their rate application to the OEB

Key Risks & Mitigants

IESO and Mitigation Actions

- The IESO collects funds from the buyers of electricity (LDCs and Large Industrials) and forward the collected funds to the entities supplying the commodity (generators) and other service providers (transmission and market operating costs)
- Based on the conditions outlined in the Market Rules, a buyer of power may be required to post collateral to the IESO to support their projected exposure. The amount of collateral is based on public credit ratings or credit payment history versus the amount of the potential exposure
- Approximately $22 billion in costs flow through the Ontario electricity system each year (60% goes to generators)
- Since the beginning of the IESO open market in 2002, there have been 20 defaults to the IESO
  - Only three defaults could not be fully covered by the collateral posted by the defaulters
  - Of the three defaults that resulted in “default levies” to the market participants, the total the levies were under $1 million
  - Default levies are allocated 50% to Buyers of Power and 50% to the Sellers of Power, based on their usage/generation and are not absorbed by the IESO

In summary, the key market participants responsible for channeling funds to the suppliers of power have a very strong credit history with very low losses (minimal default levies)

Under Collection of Clean Energy Adjustment Repayments

The LDCs are responsible to collect amounts owed from their customers defined as “specified consumers” under the Fair Hydro Plan and hold these amounts in trust. They are required to forward these amounts to the IESO as part of the monthly billing process. The IESO must hold these amounts in Trust and then forward these amounts to the investment interest owners, specifically the Trust entity managed by OPG

- If electricity bills are not paid in full by specified consumers, payments will be allocated to the clean energy adjustment and other amounts payable under the bill on a pro rata basis
- Amounts owed and not received for the clean energy adjustment will be subject to a true up charge to the specified consumer class on future bills

LDC Commingling Risk

- The IESO will provide a letter of credit in an amount equal to anticipated collections of the clean energy adjustments by all unrated, or non-investment grade rated local distribution companies (“LDC’s”)

Key Risks & Mitigants

Political Risk Mitigation

- The Fair Hydro Plan provides a discount to specified consumers for a ten year period. However, there is a subsequent twenty year period where repayment is required. There may be pressure on a future government to adjust certain aspects of the repayment requirements. To mitigate this, the current government is providing a "Change of Law Protection Agreement" related to the Fair Hydro Plan that:
  - Specifies "Protection Events" that would require the Province of Ontario to pay the claims owed to the financing entity
  - The protection events includes actions by the government to repeal or change the structure of the Ontario Fair Hydro Plan Act that adversely affects the ability of the financing entity to receive amounts on its investment interest

Size of Charge Relative to Customer Bill

- The Fair Hydro Plan provides a reduction for specified consumers' on their electricity bill with discounts up to 25% in the earlier years beginning in 2017, with the discount percentage falling by the end on the discount period (2026). A portion of the discount is financed by a reduction in the provincial sales tax, the reminder will be borrowed.
- By 2027, there will be an amount owing equal to the cumulative borrowings plus any accrued interest charges and that will be repaid from 2027 to 2047 by the specified consumers. The charge will be applied to their bill. If the charge is too high, there could be a consumer and/or political backlash. To mitigate this risk:
  - There is a 20 year payback period to smooth the impact
  - The current projected payback structure indicates that the charge will be less than 10% of the customer's bill in all years, and average 6.50%
  - A conservative demand scenario was used in estimating future demand volume of the specified consumers, with usage basically flat over the repayment timeframe

Table of Contents

Structural Comparison

	Precedent Utility Charge Securitizations	Proposed Fair Hydro Structure
Legislation	Legislation creates regulatory basis for implementation and servicing of the charge	
Details of Financing	Outlined in irrevocable Financing Order	Outlined in Regulations supported by province guarantee
Collateral	The right to impose and collect a charge from electric utility customers as well as transaction reserve accounts	
Government Support	State pledge not to permit any action that would impair the value of the Collateral	Province guarantee of repayment if there is a change of law that would impair the value of the Collateral
Non-Bypassability	Charge to be paid by all existing and future electric customers in included customer classes	
Impacted Customers	The majority of customers in service territory (including residential, commercial and industrial)	The majority of customers are residential and light commercial
Recovery Charge	Relatively low, <5% of total bill	<10% of total bill
Issuer	Varies, but generally a newly formed special purpose vehicle ("SPV") that is a subsidiary of Investor Owned Utility	Newly formed special purpose vehicle ("SPV") would be consolidated into Ontario Power Generation ("OPG") financial statements
Servicer	Varies, but generally Investor Owned Utility	Independent Electricity System Operator ("IESO")
Third Party Billing	Varies depending on State	Yes, via Local Distribution Companies ("LDC")
Nonpayment & Partial Payment by Customers	To the extent that any electric utility customer makes a partial payment of a bill containing the charge, the charge collection will be a pro-rata portion of the payment	
Amortization	Fully amortizing with principal payments beginning at first issuance	Bullet or amortizing bonds with principal payments deferred for a number of years following issuance
Establishment of First Charge	Generally within 1 year of issuance	Delayed start
Credit Enhancement	True-up mechanism, reserve accounts	True-up mechanism, reserve accounts, and subordinated debt
Hedging	Historically limited to interest rates	May include interest rate and currency hedging
Trust Structure	Discrete (single issue) trust	Master trust with multiple series issued over a 10 year period
Legal Opinions	Standard opinions regarding Validity, Enforceability and Regulatory Issues (Constitutionality opinion not applicable for Canadian transactions)	

Transaction Includes Same Key Elements as 'AAA' Investor-Owned Utility Securitizations

- Based on the existing Ontario Electricity market infrastructure no credit losses are anticipated
- Fair Hydro Trust true-up mechanism will ensure timely and full collectability of all debt
- OPG subordinated debt will provide incremental credit enhancement for the senior debt
- Provincial support protects investors from an adverse change in law
- The Province of Ontario has very low credit risk and is considered to be stable
  - High likelihood of Government of Canada (Aaa, stable) actions to prevent provincial default
  - Ontario is the largest economy of Canadian provinces: 40% of national economic output, 38% of national population, strong destination for immigration, lower than national unemployment rate

✓	**Experienced Operating Agent**	• OPG, IESO, and LDC are experienced operators
✓	**Strong Service Territory**	• Stable customer base with diversified service territory
✓	**Enhanced True-up**	• Mandatory semi-annual true-ups to correct for any over or under collections • Optional interim adjustments permitted as necessary
✓	**Irrevocable & Nonbypassable Charge**	• Final and effective upon issuance of Bonds • Applies to all residential and small commercial consumers receiving power through T&D system
✓	**Province Support**	• Strong government support through change of law protection of bond legal and regulatory framework
✓	**Full Cross-Collateralization**	• Any collection shortfall is allocated among all specified consumers
✓	**No Industrial Risk**	• No single large customer or industry exposure

Table of Contents

Electricity Demand

Historical Usage

IESO Demand Forecast	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
IPSP I	154.0	154.5	153.8	149.8	149.0	148.8	147.7	147.0	146.4	147.7
IPSP II					143.3	144.4	144.5	145.0	146.0	146.3
2013 LTEP							142.5	140.9	140.3	140.5
Combined Forecast	154.0	154.5	153.8	149.8	143.3	144.4	142.5	140.9	140.3	140.5
Actuals	153.8	150.6	141.1	144.5	144.3	144.5	145.0	144.9	143.0	143.3
Variance	0.2	3.9	12.7	5.3	-1.0	-0.1	-2.5	-4.1	-2.7	-2.8
% Error	**0.1%**	**2.6%**	**9.0%**	**3.7%**	**-0.7%**	**0.0%**	**-1.7%**	**-2.8%**	**-1.9%**	**-2.0%**

Note: Ontario experienced a significant reduction in industrial demand in 2009 related to the global financial crisis. As a result, forecast variance in 2009 and 2010 are outliers as the forecast wasn't updated again until 2011. Additionally, the reduction in demand was primarily from industrial customers who are not eligible for the Fair Hydro Plan.

Customer Base

- Population Growth & Stability
  - History of Electricity Delivered by Customer Type (GWh/$MM)
  - Energy Usage Forecasting (by GWh / Customer Number / $MM) (dating back to 2007)
    - Consumption Forecasting & Variance (dating back to 2007)
    - Toronto Hydro's Net Charge-Off & Delinquencies 10 Year Summary

In 2011, Ontario electricity ratepayers were split into two classes:

- Class A – Originally large industrials with average peak demand greater than 5 MW
- Class B – All other customers (residential, commercial and small industrials)

Electricity Demand by Customer Class

	Class A	Class B
2011	16%	84%
2012	17%	83%
2013	17%	83%
2014	18%	82%
2015	19%	81%
2016	20%	80%

Since 2011, the definition of Class A customers has been periodically broadened to include more customers. Currently, customers with peak demand of 1 MW or greater are eligible (as well as certain manufacturers with peak demand greater than 500 kW)

Appendix: Toronto Hydro's Net Charge-Off & Delinquencies 10 Year Summary

Toronto Hydro	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	$	$	$	$	$	$	$	$	$	$
Accounts receivable										
Outstanding for not more than 30 days	197.9	171.7	180.7	176.94	153.51	155.27	147.46	128.73	104.87	129.79
O/S greater than 30 days, not more than 120 da	27.3	16.5	21.4	24.45	18.23	24.78	21.64	20.8	21.67	22.13
Outstanding for more than 120 days	4.6	3.5	4.8	12.23	14.11	16.21	11.81	13.34	15.16	15.22
Total Gross accounts receivable	239.60*	203.20*	218.80*	213.62	185.85	196.26	180.91	162.87	141.70	167.14
Unbilled revenue	320.5	320.4	307.5	326.87	278.9	262.06	287.89	295.65	266.06	276.00
Total accounts receivable and unbilled revenu	560.1	523.6	526.3	540.49	464.75	458.32	468.8	458.52	407.76	443.14

*Adding back AFDA were required

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Allowance for Doubtful Accounts										
Balance, beginning of year	(11.5)	(11.9)	(10.9)	(10.7)	(13.0)	(11.9)	(12.6)			
Provision for doubtful accounts	(5.7)	(7.1)	(7.4)	(7.8)	(6.6)	(10.3)	(7.0)			
Write-offs	7.7	7.7	7.1	8.1	9.3	9.9	9.3			
Recoveries	(0.3)	(0.2)	(0.7)	(0.5)	(0.4)	(0.7)	(1.6)			
Balance, end of year	(9.80)	(11.50)	(11.90)	(10.91)	(10.70)	(12.99)	(11.92)	(12.58)	(10.11)	(11.73)
Revenue	4,030.0	3,539.9	3,272.8	3,202.7	2,852.5	2,809.3	2,611.7	2,416.7	2,382.0	2,352.0
AFDA / AR	4.09%	5.66%	5.44%	5.11%	5.76%	6.62%	6.59%	7.72%	7.13%	7.02%
AFDA / Sales	0.24%	0.32%	0.36%	0.34%	0.38%	0.46%	0.46%	0.52%	0.42%	0.50%
Write-Off / Sales	0.19%	0.22%	0.22%	0.25%	0.33%	0.35%	0.35%			

	3 Year Av	**5 Year Av**	**10 Year Avg**
AFDA / AR	5.06%	5.21%	6.11%
AFDA / Sales	0.31%	0.33%	0.40%
Write-Off / Sales	0.21%	0.24%	N/A