

ORIGINAL

ESSENTIAL

UNBIASED

INFORMATION

Innovative Financing: Pushing Beyond Best Practice

Case Study: Lower Mattagami Financing

October 2012

Disclaimer

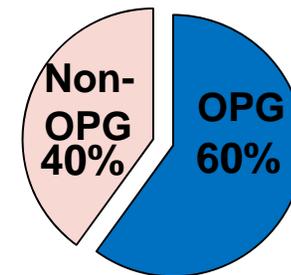
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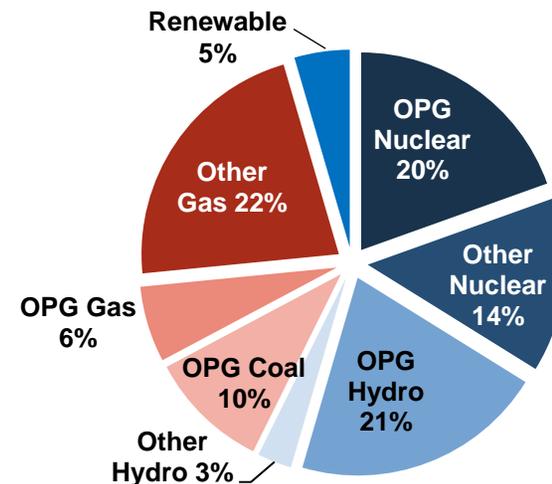
OPG Overview

- OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario
- With a total in-service capacity of ~19,000 MW, OPG is one of the largest power generators in North America
- OPG's generating assets include:
 - 3 nuclear generating stations
 - 5 thermal generating stations
 - 65 hydroelectric generating stations
 - 2 gas fire generation stations with Partners
- Total revenues of \$5.1 billion for FY2011

2011 Ontario Electricity Production



2011 Ontario Capacity



Lower Mattagami River Complex



- The Lower Mattagami River (LMR) Complex is composed of four stations on the Mattagami River in north eastern Ontario approximately 920 km (572 miles) north of Toronto, existing capacities are:
 - Little Long (138 MW)
 - Smoky Falls (52 MW)
 - Harmon (142 MW)
 - Kipling (154 MW)
- Construction project includes full replacement of the Smoky Falls station and expansion of the other three generating stations in order to optimize water flow on the River
- Cost of redevelopment is \$2.56 billion
- Total project asset value ~\$2.96 billion following redevelopment (combining both incremental and existing assets)
 - Incremental assets are new facilities located at the same sites

LMR Complex

- Upon project completion, total capacity will be 924 MW
 - 438 MW of renewable, clean energy at existing sites using river water more efficiently
- Moose Cree First Nation will have the opportunity to invest up to 25% equity partnership in the project
- Hydroelectric Energy Supply Agreement (“HESA”) with the Ontario Power Authority (“OPA”) provides a Revenue Stream similar to the model used for regulated utilities



APPROACH TO BEST PRACTICE

What is Best Practice?

- Best Practices – “proven, repeatable techniques that produce consistent results and are used as a benchmark”

What is Best Practice?



- We are “*following*” Best Practices

Moving Beyond Best Practices

- Require an awareness and mindset to break away from the pack
- Blue print/Baseline/Benchmark
 - Use as reference and guideline
 - One size does not fit all
- Best Practice – Floor not your ceiling

How do you break away from pack

- Determine your objectives and specific needs
- Assess the unique attributes of your project i.e., strengths, weaknesses, constraints
- Identify your stakeholders
- Determine Assessment Criteria vs Benchmark

- Ask the “Why Question”
 - It has never been done
 - It won’t be accepted
 - It is too complicated
- Focus on steps to mitigate or address the issues

LOWER MATTAGAMI CASE STUDY

Key Financing Objectives

The challenge was developing a financing platform that would:

- Raise sufficient capital to execute the Project
- Be flexible and responsive to the Project's capital requirements throughout construction
- Maximize leverage and ROE returns
- Be cost effective, reducing overall financing costs
- Be accepted by a variety of stakeholders

Key Stakeholders



- 1. Communicate! Communicate! Communicate!**
- 2. Understand each stakeholder's perspective**
- 3. Tailor message for each stakeholder group based on their "Lens"**
- 4. Repeat and reinforce messaging to sustain buy-in**

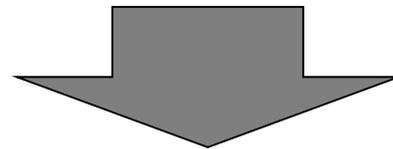
LMR Financing Constraints

Traditional Project Financing:

- Bank Financing – full up-front commitment required
- Bond Takeout – fully amortizing

Challenges specific to LMR Complex:

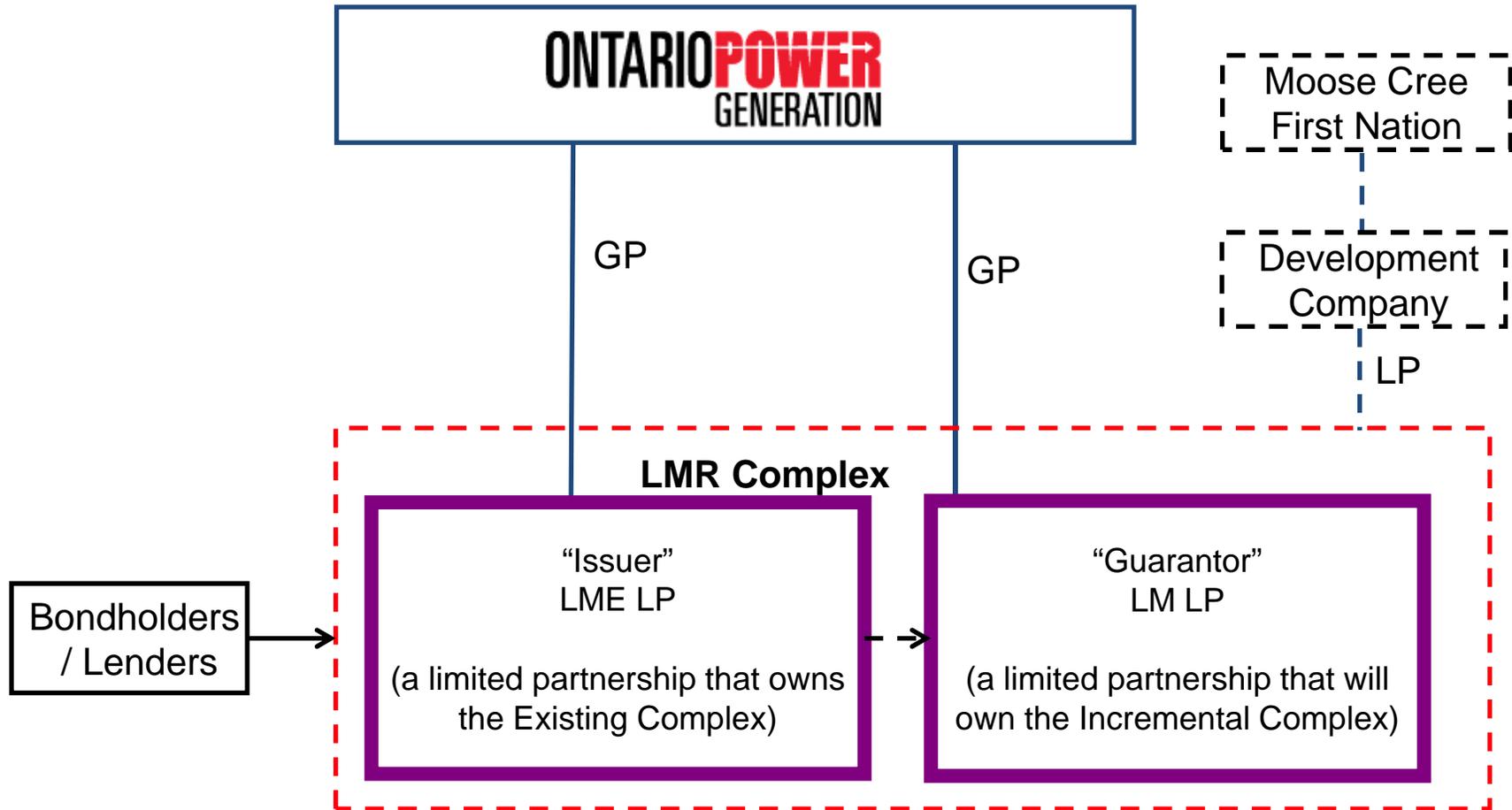
- 5-year construction
- Capacity for \$2 billion amortizing debt
- Refinancing risk due to the 50-yr term of the Revenue Agreement
- Complex legal and asset arrangement



Strategy:

- Structuring
- Marketing
- Execution
- Review

Simplified Legal Structure



THE STRATEGY

Strategic Approach

Short-Term Liquidity

- Project costs will be initially funded through the issuance of commercial paper (“CP”), periodically refinanced in the long term debt market over the construction period
- CP program rated investment grade, launched in September 2010
- Lower Mattagami Energy Limited Partnership (“LMELP”) received an Issuer Rating of ‘A-high’ from DBRS and ‘A2’ from Moody's

Long-Term Financing

- Repositioned as “**utility-like**” entity vs Project
- Perpetual asset and “going concern” addresses refinancing risk
- Senior bullet bonds will be periodically issued in the private placement market, either to repay CP, or used to fund project costs directly
- Bonds are secured by Lower Mattagami assets and have recourse to OPG until assets are in-service, and recourse release conditions are met

Minimize Negotiations with Credit Providers

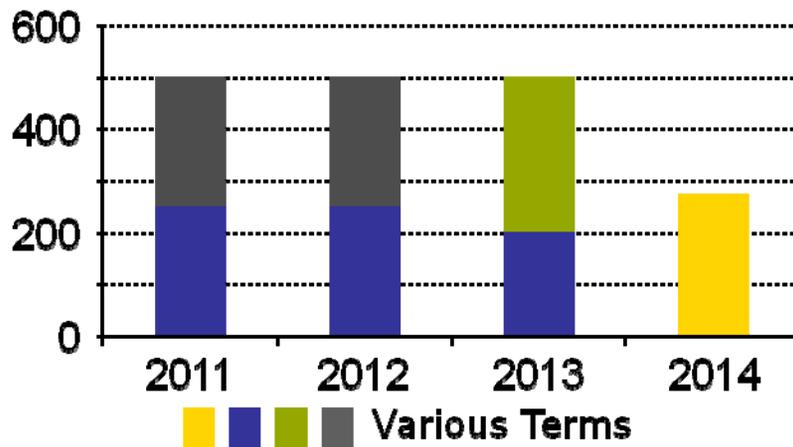
Capital Markets Platform

- All of LMELP's debt (bank, CP, bonds) will rank pari passu under the Master Trust Indenture
- Bond structure to appeal to the broadest range of institutional investors through issue size, timing, term, repayment profile as well as spreading out refinancing risk for subsequent bond maturities
- Common security and covenants for all credit providers
- Bonds issued under distinct Supplemental Indentures
- In addition, LMELP may enter into hedging arrangements, also under this common platform

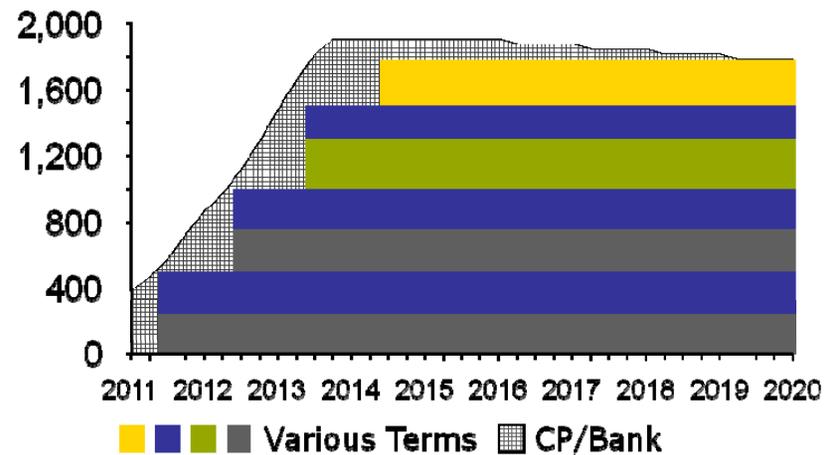
Execution

Illustrative Bond Issuances During Construction

C \$ millions



C \$ millions



- LMELP is a Semi-frequent issuer – “Going Concern”
- Bullet bond portfolio vs single amortizer
- Planned principal amortization equivalent to 65% of asset depreciation
- Principal amortization achieved through:
 - Periodic refinancing of certain long-term bonds with CP; and
 - Regular reduction in the amount of CP outstanding

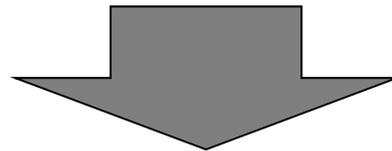
LMR Financing Constraints

Traditional Project Financing:

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Challenges specific to LMR Complex:

- 5-year construction
- Capacity for \$2 B amortizing debt
- Refinancing risk due to the 50-yr term of the Purchase Agreement
- Complex legal and asset arrangement



Characteristics of the “Hybrid” Project Financing Plan:

- Unique legal structure with broad capital markets platform
- Periodic financing rather than upfront financing, thus eliminating negative carry and reducing upfront commitment and financing fees
- Short term financing by way of cost effective CP, with periodic bond refinancing structure
- Cost effective bullet bonds rather than amortizing bonds

Role of Advisors / Dealers

- **Selecting advisors**

- More than one firm
- Potentially opposing views of best practices and trends in financial markets will allow you to make better informed decisions

- **Managing advisors**

- Tension is healthy

- **Who drives the bus / takes ownership of the risks**

- Advisor and client balance

Marketing Experience

- CP program well received, with spreads continually tightening on subsequent issuances
- May 2011 (inaugural launch) bonds issued in both 10-year and 30-year terms to appeal to a broader investor base and to establish a yield curve
 - More than 3x oversubscribed, which significantly contributed to spreads narrowing. Deal upsized from \$400 M to \$475 M
 - Transaction attracted a widespread domestic investor base, >50 large institutional buyers, demonstrating strong liquidity and market appetite for future bond issues

ISSUER: Lower Mattagami Energy Limited Partnership	
DESCRIPTION: 4.331% Bonds, Series 2011-3 May 18, 2021 (pp)	
SIZE: \$225,000,000 / 225,000,000 domestic	
LEAD: BMO Capital Markets / CIBC World Markets Inc.	
LAUNCH: May 12, 2011	
SETTLEMENT: May 17, 2011	RETAIL PRICE: \$100.0000
YIELD (s.a.): 4.331%	INTEREST PAYMENT: Nov 18, May 18
SPREAD (bps): 112.00	DBRS RATING: A(h)
BENCHMARK: Int. 3.50% 06/20 & 3.25% 06/21	MOODY'S RATING: A-2
CALL (bbps): 28.00	
TERM (yrs): 10	

ISSUER: Lower Mattagami Energy Limited Partnership	
DESCRIPTION: 5.139% Bonds, Series 2011-4 May 18, 2041 (pp)	
SIZE: \$250,000,000 / 250,000,000 domestic	
LEAD: BMO Capital Markets / CIBC World Markets Inc.	
LAUNCH: May 12, 2011	
SETTLEMENT: May 17, 2011	RETAIL PRICE: \$100.0000
YIELD (s.a.): 5.139%	INTEREST PAYMENT: Nov 18, May 18
SPREAD (bps): 152.00	DBRS RATING: A(h)
BENCHMARK: C4.00% 06/41 (3.169%)	MOODY'S RATING: A-2
CALL (bbps): 38.00	
TERM (yrs): 30	

Marketing Experience

- April 2012 bonds issued in 40-year term to take advantage of low rates and flat yield curve
 - More than 2x oversubscribed in a tight credit market. Deal upsized from \$200 M to \$225 M
 - 25 large institutional buyers with 9 new participants

ISSUER: Lower Mattagami Energy Limited Partnership	
DESCRIPTION: 4.175% Bonds, Series 2012-1 April 23, 2052 (pp)	
SIZE: \$225,000,000 / 225,000,000 domestic	
LEAD: CIBC World Markets Inc. / BMO Capital Markets	
LAUNCH: April 16, 2012	
SETTLEMENT: April 23, 2012	
YIELD (s.a.): 4.175%	INTEREST PAYMENT: Oct 23, Apr 23
SPREAD (bps): 160.00	DBRS RATING: A(h)
BENCHMARK: C4.00% 06/41 (\$129.10-2.574%)	S&P RATING: NR
CDA CALL (bps): 40.00	MOODY'S RATING: A-2
TERM (yrs): 40	SECURITY ID:

AFP Pinnacle Grand Prize 2011

- OPG won in Corporate Finance & Capital Markets category of Association for Financial Professionals 2011 Pinnacle Awards
- Recognized Lower Mattagami Project's creative financing structure
- Recognized by Sustainable Electricity Awards as Company of the Year on strength of innovative financing of the Lower Mattagami Project, and partnership with First Nations.



SUMMARY

Moving Beyond Best Practices

- 1. Best Practices - Baseline/Floor not your ceiling**
- 2. Assess the unique attribute and specific needs of your project**
 - One size does not fit all
- 3. Take ownership of the risks**
 - Drive the bus
- 4. Manage and communicate with Stakeholders**



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ONTARIO **POWER**
GENERATION



QUESTIONS