MORNINGSTAR | DBRS

PRESS RELEASE

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DBRS Morningstar Confirms Ontario Power Generation Inc. at A (low)/R-1 (low), Stable Trends

UTILITIES & INDEPENDENT POWER

DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A (low), and the Commercial Paper rating at R-1 (low). All trends are Stable. The ratings of OPG are primarily based on the Company's regulated electricity generation business under the Ontario Energy Board (OEB) which provide a stable stream of cash flows.

In November 2020, the Province amended Ontario Regulation 53/05 to freeze OPG's regulated hydroelectric payment amounts for the next regulatory period of 2022–26 at the 2021 level. DBRS Morningstar does not expect this change to have a material impact on the Company although earnings may be modestly pressured as efficiencies must be found to offset inflationary cost increases. In December 2020, OPG filed its application with the OEB for 2022–26 payment amounts related to its regulated nuclear business. In its application, the Company largely applied for the continuation of its current Custom Incentive Rate-setting framework for its nuclear operations. If approved, the decision would provide certainty for OPG's capital expenditures (capex) program for the remainder of the Darlington Refurbishment project (the Darlington Refurbishment; total capex of $12.8 billion).

In June 2020, OPG returned the first unit of the Darlington Nuclear Generating Station to service. DBRS Morningstar notes that the refurbishment of the first unit was completed on budget and largely on schedule. In September 2020, the Company began refurbishment of the second unit. While the overall project remains on schedule and on budget, OPG has noted that uncertainty about the Coronavirus Disease (COVID-19) pandemic could lead to delays and cost increases. DBRS Morningstar will continue to monitor the Darlington Refurbishment and any changes in scheduling and budget. Should there be significant cost overruns with the Darlington Refurbishment that result in stranded costs, a negative rating action may occur.

Despite the coronavirus pandemic, OPG was able to achieve its operational and financial results in 2020. The Company's earnings benefitted from higher regulated rates for nuclear operations and increased contributions from nonregulated operations. In April 2020, OPG completed a $2.8 billion acquisition of a portfolio of natural gas-fired generation assets in Ontario totalling 1,864 megawatts. DBRS Morningstar noted that the overall impact of this acquisition was minimal on the Company's credit profile as regulated operations and assets under regulatory-style contracts will continue to contribute more than 80% of EBITDA. Although the acquisition was fully debt funded, OPG's key credit metrics remain in line with the A (low) ratings. DBRS Morningstar notes that the Company has indicated that growth in its nonregulated business will be at a more moderate pace following these acquisitions, with most planned capex for its regulated operations. However, should OPG pursue acquisitions that result in a significant shift in the EBITDA mix between regulated and nonregulated operations or lead to credit metrics deteriorating to a level no longer supportive of the current rating category, DBRS Morningstar may take negative rating action. Conversely, a positive rating action is unlikely in the medium term, given the ongoing capex program, including that for the Darlington Refurbishment.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/373262.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The principal methodologies are Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry (October 27, 2020, https://www.dbrsmorningstar.com/research/368939), DBRS Morningstar Criteria: Guarantees and Other Forms of Support (January 14, 2021, https://www.dbrsmorningstar.com/research/372344), and DBRS Morningstar Criteria: Commercial Paper Liquidity Support for Nonbank Issuers (March 9, 2021, https://www.dbrsmorningstar.com/research/375001), which can be found on dbrsmorningstar.com under Methodologies & Criteria. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021, https://www.dbrsmorningstar.com/research/373262). .

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: https://www.dbrsmorningstar.com/research/357883.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar trends and ratings are under regular surveillance.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

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Ratings

Ontario Power Generation Inc.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
08-Apr-21	Issuer Rating	Confirmed	A (low)	Stb	CA
08-Apr-21	Unsecured Debt	Confirmed	A (low)	Stb	CA
08-Apr-21	Commercial Paper	Confirmed	R-1 (low)	Stb	CA

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