ONTARIO POWER GENERATION

**OPG Confidential Exclusive**

**FOR APPROVAL by the Board of Directors**

**October 19, 2020**

# Amended 2020 – 2026 OPG Inc. Business Plan

## DECISION REQUIRED / REASON FOR REPORT

The purpose of this submission is to seek the Board's approval of OPG's Amended 2020-2026 Business Plan, which sets out performance goals and targets for the 2021-2026 period, a forecast of performance for the 2020 year and a restated 2020 budget to reflect pandemic-related impacts . Upon Board approval, the business plan will be submitted to the Shareholder for review and concurrence in accordance with the Memorandum of Agreement between the Shareholder and OPG.

## ISSUES

OPG's Amended 2020-2026 Business Plan implements the Company's strategic objectives by setting out performance targets and resource levels associated with meeting key business outcomes over the next several years, aligning with our Board reviewed strategic plan. With the onset of the COVID-19 pandemic earlier in 2020, a decision was made to withdraw the original 2020-2026 Business Plan in order to reflect the material changes brought on by the pandemic. The Shareholder agreed with this approach, which included a commitment to bring forward an amended 2020-2026 Business Plan to reflect changes to the 2020 year as well as to establish the operational and financial control base against which actual results will be measured in the future.

In addition to pandemic-related impacts, the restated 2020 budget reflects the accounting treatment for the gas plant acquisition that closed in April 2020, whereby the transaction was treated as an asset acquisition, rather than a business combination, in the company's consolidated financial statements under US GAAP. [redacted]

While management reporting for 2020 continues to utilize the original budgets established for the year, the Amended 2020-2026 Plan will be used to set the relevant measures for the 2021 Stakeholder Return Program and elements of the 2021-2023 Medium Term Incentive Program. The business plan will also underpin the upcoming 2022-2026 rate application to the Ontario Energy Board (OEB).

## ANALYSIS / HIGHLIGHTS

OPG's Amended 2020-2026 Business Plan is focused on continuing to drive increased value for the Shareholder while supporting climate change goals and ensuring OPG remains Ontario's low cost energy provider, benefiting ratepayers in Ontario. The plan builds on the progress and commitments made in the 2019-2021 Business Plan, including over [redacted] in OM&A savings since 2018, by embedding strong operational performance, increased organizational agility and a strategic growth path:

- Continue to target strong reliability of the core generating fleet, including a forced loss rate of 3.5% at Pickering reflecting investments made to position the plant for its remaining operating life and 1.0% at Darlington in line with targeted top quartile performance;
- Ensure operations and investments support the Province's climate change goals and initiatives and enable achievement of OPG's ambitious Climate Change Plan, including achieving net zero carbon emissions by 2040;
- Leverage the recent organizational realignment to drive increased operating efficiencies and continue implementing the targeted post-Pickering cost structure, helping to mitigate the reallocation of cost to remaining operations and achieve the OEB's productivity targets;
- Complete the integration of recently acquired strategic assets in Ontario (gas assets) under Atura Power and in the US (hydroelectric platform) under Eagle Creek Renewable Energy;
- Make commercial investments in areas that prepare Ontario and Canada for the future of energy, while driving increased economic activity;

- Demonstrate a corporate commitment to, and advance equity, diversity and inclusion goals at all levels in the organization;
- Continue to ensure preparedness of operations and the workforce for ongoing risks related to the ongoing pandemic.

The plan continues to support key corporate priorities including: advancing opportunities for deployment of small modular reactors (SMRs); completion of Darlington refurbishment; implementation of optimization plans for the Pickering shutdown; investment in upgrades and redevelopment of the hydroelectric fleet; [redacted]; advancement of electrification and other forward-looking energy solutions; advancing cost improvement goals through technology; and continuing to transform the culture.

Inclusive of the restated 2020 budget, this business plan includes the final two years of the 2017-2021 OEB rate-setting period for our regulated operations and encompasses the 2022-2026 period, being the next rate-setting period. As a result, the plan covers a 7-year operating window and will form the underpinning of the next OEB application, targeted for submission in late 2020. This period covers a significantly complex window, which includes returning in service the remaining units as part of the Darlington refurbishment and ending Pickering commercial operations, to be followed by a complex downsizing exercise. Coupling these significant changes to the nuclear program with the integration of recent acquisition activities, substantial reinvestment in the hydroelectric assets, potential deployment of SMRs, inherent uncertainties of COVID-19, and relocation to a new corporate campus makes the Amended 2020-2026 Business Plan the largest and most diverse planning activity in OPG's recent history.

Highlights of the Amended 2020-2026 Business Plan are as follows:

- **A temporary increase in nuclear generation and earnings in 2020, followed by a decline in 2021** as a result of actions taken by management in response to the pandemic. In particular, a four-month deferral to the start of the Darlington Unit 3 refurbishment later in the year and the movement of a planned outage for Darlington Unit 1 from Fall 2020 to 2021 both result in increased 2020 earnings. Subsequently, 2021 earnings are negatively impacted from the Unit 1 outage deferral as well as addition of an incremental outage on Darlington Unit 4 arising from the consequential revisions in the Darlington refurbishment schedule. The revised schedules maintains completion of the four units refurbishment by the end of 2026.
- Over the 7 year period, **net income attributable to the Shareholder** averages approximately [redacted] due to growth in the rate base from refurbished Darlington units returning to service, hydroelectric investments and [redacted]
- Continued execution of cost saving initiatives that will see a continued rightsizing of the organization, in both operating and support services organizations, to reflect the smaller footprint from the closure of the Pickering station at the end of 2025. To that end, the plan targets efficiencies that will result in estimated **cumulative savings in base operating costs**, on an inflation-adjusted basis, of approximately [redacted] by 2026.
- An **increase in project investments**, both to ensure leading performance during the 'second life' operations of the refurbished Darlington station and for sustainment and renewal of the Ontario based hydroelectric fleet. Incremental sustaining investments are also planned for the US operations to support continuous improvement.
- [redacted]
- **Rate smoothing deferral of ~$900 million** of revenue, plus interest, into an approved deferral account over the 2022-2026 period, with a cumulative balance of $1.7 billion by 2026. Additionally, costs associated with staff exits resulting from Pickering end of commercial operations are assumed to be recorded in a regulatory deferral account, facilitated by currently proposed regulation amendments.
- Corporate wide headcount reduces from [redacted] in addition to management reductions during the balance of 2020 facilitated by the recent organizational realignment
- Investment of [redacted] into several hydroelectric development and other major projects including completion of the Sir Adam Beck G1/G2 replacement, redevelopment of the Calabogie, Coniston and several other smaller facilities, and dam safety and other improvements in water control structures on the Lower Mattgami River
- **Continued price advantage of** [redacted] over the average cost of other electricity generators in Ontario, taking into account upcoming rate application and gas plant acquisitions.
- Non-capital investment of **~$270 million over 2020 and 2021** into planning and preparation activities for grid-scale **SMR deployment** in Ontario and renewal of the New Nuclear Darlington site preparation licence. This work will inform development of a business case for the construction of a grid-scale SMR at the New Nuclear Darlington site. Pending Board approval of this opportunity and concurrence from the Shareholder, the plan does not assume any capital investment toward activities beyond the current preliminary planning phase.

| Amended 2020-2026 Business Plan Summary | Forecast | Amended Business Plan | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Net Income Attributable to Shareholder *($ millions)* | [redacted] | | | | | | |
| Debt Ratio | | | | | | | |
| Enterprise Total Generating Cost *($/MWh)* | | | | | | | |
| Total Production (net of Surplus Baseload Generation) *(TWh)* | | | | | | | |
| OM&A Expenses from Ongoing Operations* *($ millions)* | | | | | | | |
| Capital Expenditures *($ millions)* | | | | | | | |
| Headcount* (Regular and Term Based Employees) | | | | | | | |

* Consistent with the basis for the corporate balanced scorecard measure for OM&A expenses, shown excluding operating subsidiaries (Atura Power, Eagle Creek, Laurentis)

Based on the plan, OPG expects to contribute [redacted] in Total Shareholder Return (TSR) to the Province over the 2020-2026 period. Over 2020 and 2021, TSR of [redacted] represents an [redacted] over the 2020-2021 commitments made to the Province based on the 2019-2021 Business Plan.

OPG continues to closely monitor and respond to the evolving pandemic but, given uncertainties, has not assumed any additional impacts to the business in developing the plan. To the extent a second or future wave of the pandemic necessitates additional action to address the public health situation, there remains an inherent risk to the operating, project and financial assumptions and outcomes underpinning the plan.

## RECOMMENDATION / RESOLUTION

That the OPG Board of Directors approve:

i) OPG's Amended 2020-2026 Business Plan, as submitted at Appendix 1 to the Board memorandum dated October 19, 2020 , and the budget for 2021 as the operational and financial control base against which actual results will be measured for the year,

ii) Authorize and direct the Chief Financial Officer to approve any minor changes to the Business Plan, for the purposes of submitting to OPG's Shareholder, and

iii) Submission of the Amended 2020-2026 Business Plan to OPG's Shareholder, the Minister of Energy, for concurrence in accordance with the Memorandum of Agreement between the Shareholder and OPG.

**Recommended by:**

John Mauti
Chief Financial Officer and
Senior Vice President, Finance

**Approved for submission to the Board of Directors by:**

Ken Hartwick
President and CEO

This Board memo was reviewed and approved for submission to the Board of Directors by the Audit & Risk Committee at their meeting of October 19, 2020

## APPENDICES

List of attached appendices:
1. Amended 2020 – 2026 OPG Inc. Business Plan