ONTARIO POWER GENERATION

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Ken Hartwick
CFO and Senior Vice President

Jeff Lyash
President and CEO

Approval to Increase Total Funding for the D2O Storage Drum Handling Facility Project (the "D2O Project") – Project # 31555

Ken and Jeff:

The purpose of this memorandum is to request your approval to release funds from the Darlington Refurbishment Program ("DRP") General Program Reserve in the amount of $9 Million as "bridge" funding related to the D2O Storage Drum Handling Facility Project ("D2O Project"). The currently approved funding for this project is $381.1 Million, however, the project is currently delayed and expected to exceed the current approved funding.

This "bridge" funding is to allow the project to continue until April 30th, including both OPG and vendor costs. OPG costs include ongoing interest, project oversight and operations support costs. Vendor costs include the completion of a pre-determined set of deliverables and preparation of a cost and schedule estimate to complete the project.

Upon receipt of the final cost and schedule estimate from the vendor, the project will review and validate the submission and update the project business case for approval. The updated business case will include the $9 Million of "bridge" funding being requested here. This is expected to be complete by April 30th, however, if there are any delays in completing the estimate a further request for "bridge" funding may be required.

These funds will be used to increase the SNC-Aecon Joint Venture's ("JV") Purchase Order from the current approved amount of $160 Million to a revised value up to $175 Million without prejudice and will provide them with funds to complete a set of pre-determined deliverables, including completion of comprehensive work packages and a

final schedule and estimate to complete by the end of March providing OPG with ample time to perform it's reviews and update the business case by April 30th. The JV Purchase order also includes funding for commitments made with respect to materials procurement.

The project is working with Supply Chain and Law to ensure that the proper processes are followed and our contractual rights, including rights to audit, and performance fees are not compromised.

Background:

- Purchase Order was issued to the JV in the amount of $160 Million, including contingencies, to complete the construction, commissioning, and close-out of the D2O Project.

- Life-to-date costs, as February month end, recorded in OPG's system, is $159.1M.

- SNC-Aecon JV is currently preparing an estimate to complete the D2O Project and is on track to submit this to OPG by March 27th 2017 at which time OPG will independently assess the estimate, resolve any issues, and recommend a final estimate to complete in conjunction with an updated Superseding Business Case Summary by April 30th.

- In the interim period, OPG and the SNC-Aecon developed a plan to minimize costs while continuing to advance critical path activities until April 30th. The forecasted costs of the JV, at the end of April, 2017, are $175 Million, resulting in an incremental funding request of $9 Million on the project.

Additionally, the following actions are being taken by OPG:

- OPG is retaining KPMG LLP to audit the SNC-Aecon JV's submitted costs on the D2O project to ensure compliance with the Extended Services Master Services Agreement (the "**ESMSA**") between OPG and the SNC-Aecon JV.
- An assessment of SNC-Aecon JV's Project Controls for all projects being executed within the Darlington Refurbishment program, including the D2O Project, will be undertaken by a combined OPG Planning and Controls and Burns and McDonnell/Modus team. It is expected that a report will be prepared in advance of the Darlington Refurbishment Committee meeting scheduled for May 11th.

Upon your approval, standard processes to increase the Purchase Order values, process change control within DRP will be followed.

Yours truly,

Dietmar Reiner
SVP Nuclear Projects

Concurred By:

Ken Hartwick
CFO and Senior Vice President

Approval:

Jeff Lyash
President and CEO

cc. Carla Carmichael, VP, Project Assurance and Contact Management, OPG
Art Rob, VP, Projects & Modifications, OPG
Gary Rose, VP, Planning and Project Controls, OPG
Leo Saagi, Director – Controllership, Nuclear Projects, OPG
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