**Evelyn Wong**
Director, Regulatory Affairs

700 University Ave, Toronto, ON, M5G 1X6

evelyn.wong@opg.com

Ms. Christine E. Long
Registrar
Ontario Energy Board
P.O Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

May 25th, 2021

Dear Ms. Long:

RE: Interrogatories on LEI Report (EB-2020-0290)

Please find attached OPG's interrogatories with respect to the report filed by London Economics International: Recommendation for appropriate equity thickness for capital structure in OPG's 2022-2026 Payments Application.

Evelyn Wong

CC:

Brenda MacDonald (OPG) e-mail
Charles Keizer (Torys) e-mail
Aimee Collier (OPG) e-mail
Crawford Smith (Lax O'Sullivan Lisus Gottlieb) e-mail

Interrogatories from Ontario Power Generation

1. Exhibit M / Page 5 LEI states, "LEI was engaged by a large Ontario gas utility to conduct an independent capital structure review to assess the reasonableness of the utility's common equity component."

    a. Please provide the name of the large Ontario gas utility.

    b. If applicable, please provide the OEB proceeding number.

    c. Please provide a copy of LEI's report/study.

    d. What was LEI's recommended equity thickness for the large Ontario gas utility?

2. Exhibit M / Page 6 LEI states, "LEI staff, including Mr. Goulding, also made a presentation on the cost of capital and risk factors associated with OPG's regulated assets. [OEB Proceeding No. EB-2012-0340]." Please provide the referenced presentation.

3. Exhibit M / Page 6 LEI states, "LEI has been engaged by OEB staff (since Fall 2019) to provide quarterly updates on the macroeconomic conditions facing the utility sector in Ontario, and their potential impact on the cost of capital parameters." Please provide all quarterly updates provided to OEB staff pursuant to the referenced engagement.

4. Exhibit M / Page 14 LEI stated on page 14 that the following statement "*Rate smoothing is required by O.Reg.53/05. The OEB finds there is no real risk… that having implemented a rate smoothing plan required by regulation, the OEB would not allow OPG to recover the deferred rates*" is still a relevant conclusion. How does the LEI conclusion reconcile with Moody's Investor Services' comment on this issue based on the issuer comment issued on January 26, 2021 (Ex. L-C1-02-VECC-010)?

5. Exhibit M / Page 15 how does LEI view the performance / operational risk of a newly commissioned asset after refurbishment and assets near their pre-refurbishment or end of life? Does the "bath-tub" curve apply to OPG's Darlington Refurbishment units that are returning to service, Darlington units reaching the end of their pre-refurbishment life, and Pickering units reaching their end of life? Should the stage of the assets be considered as part of the business risk analysis under figure 5?

6. Exhibit M / Page 15 LEI states that "For Ontario, the recession, and the expansionary budgets in response to the recession, may increase the potential for decline in the quality of implied provincial credit support to OPG if provincial deficits increase."

    a. If the province of Ontario's credit rating were downgraded, how would this affect the level of implied credit support provided to OPG by the Province?
    b. Would a downgrade in Ontario's credit rating be likely to result in a downgrade in OPG's credit rating?
    c. How does LEI's equity ratio recommendation for OPG take this factor into consideration?

7. Exhibit M / Page 16 LEI concludes that "Unit 2 coming online in June 2020 suggests delays related to COVID-19 were minor, and did not have a material impact on project timelines". Please comment on how the fact (see page 39 of the Concentric Report) that COVID-19 resulted in a decision by OPG to defer the start dates of the refurbishment outages of Units 3, 1 and 4 by four months each thereby extending the overall refurbishment schedule, factors into LEI's conclusion that delays related to COVID-19 were minor.

8. Exhibit M / Page 16 *Preamble:* LEI notes that "earlier-than-expected availability of vaccines has been witnessed in Canada and around the world, following successful clinical trials of multiple vaccine candidates. Canada has procured access to vaccine supply several times its population and has set a target for making available a vaccine to all adult Canadians by end-of-September 2021. This suggests that operations that resemble pre-pandemic conditions may be feasible by 2022." (citations omitted).

    LEI goes on to acknowledge that "OEB's determination that COVID-related impacts will be addressed during a payment amount proceeding. However, there is no evidence that reasonable recovery of prudently incurred costs will be denied. Further, COVID-19 and related impacts are a residual issue for the 2017-2021 period, and are not a significant risk factor for the forthcoming period." (citations omitted).

    a. Please define the word "significant" as it was used in this context.

b. Does LEI's determination that COVID-19 and related impacts "are not a significant risk factor for the forthcoming period" depend on Canada meeting its vaccination targets? How has LEI considered the potential impact of variants in their assessment?

9. Exhibit M / Page 18 LEI states, "In addition, in 2020, NB Power celebrated a new milestone of a full year of uninterrupted generation, for the first time since 1994, largely attributed to the refurbishment." Please discuss this statement in consideration of the following news article: Sleeping giant: NB Power nuclear plant down for repairs again | CBC News. How does LEI reconcile this article with its view of risk of returned refurbished units and its view that nuclear has less generation volatility?

10. Exhibit M / Page 20 LEI states, "In some jurisdictions cited by Concentric, although these protections may exist, penalties to shareholders for overruns are also increasingly being considered. For example, for Georgia Power's Vogtle plant, the Georgia Public Service Commission ruled that the return on equity used to calculate the Nuclear Construction Cost Recovery tariff for Unit 3 costs will be reduced by basis points per month after June 1, 2021, up to the utility's long-term cost of capital. Similar penalties exist for Unit 4, beginning in June 2022. Following a recent setback in construction, it appears the utility is set to miss the June 2021 target. Such penalties are not found in O. Reg. 53/05 with respect to the DRP."

    a. Is it LEI's position that the enabling legislations in South Carolina, Florida, and Georgia provide a lower level of protection regarding the recovery of prudently-incurred costs than O. Reg. 53/05 does?

    b. Are the "penalties" described by LEI "found" in the enabling legislation in Georgia?

11. Exhibit M / Page 20 LEI states, "The successful completion of the refurbishment of Unit 2, generally on time and nearly on budget, as well as the lessons learned from both Unit 2 and other CANDU refurbishment, support a lower risk profile for project execution in the subsequent units." Does LEI consider the overlapping of outages in the upcoming Darlington Refurbishment Project, as well as Bruce Power's contemporaneous refurbishment project, to increase or decrease the risk associated with the Darlington Refurbishment Project in the 2022-2026 IR term as compared to the 2017-2021 IR term?

12. <u>Exhibit M / Page 22</u> Please provide the underlying data and calculations for Figure 7.

13. <u>Exhibit M / Page 22</u> LEI states, "Hydroelectric payment amounts under O. Reg. 53/05 are required to be frozen at the 2021 base rate for the application period (2022-2026). <u>For this reason</u>, Concentric claims that, "*each MWh of nuclear generation will become more financially valuable to OPG as the nuclear generation output that recovers the nuclear revenue requirement is reduced, while continuing to be more financially valuable than each MWh of hydroelectric generation*"" [emphasis added] With reference to the "for this reason" reference and Figure 9 of Ex. C1-1-1, Attachment 1, p. 56, please explain whether and, if so why, it is LEI's view that the hydroelectric base rate freeze is the primary driver of the increased relative value of nuclear output over hydroelectric output in the 2022-2026 IR term compared to the 2017-2022 IR term?

14. <u>Exhibit M / Pages 22-23</u> LEI states "LEI views risk to mean the degree of unpredictable and unhedgeable net revenue volatility. Based on this definition, it may be necessary to re-examine relative risk of nuclear and hydro generation. Nuclear risk may be a perception based on High-Impact, Low-Probability ("HILP") events – such HILP events have not occurred in North America since 1979, i.e., the Three Mile Island Accident. That incident, which was a partial meltdown of Unit 2 reactor of the Three Mile Island nuclear plant in Middletown, Pennsylvania, led to no loss of life and "*negligible effects on the physical health of individuals or the environment*." This is not to suggest that the risk of a HILP event is zero, or that such events have not occurred outside of North America after Three Mile Island. Instead, it is intended as a reminder that some perspective is necessary when discussing relative risk. Further, the perceived higher levels of risk of nuclear may not take into consideration that studies have shown nuclear generation stations have higher safety records relative to hydroelectric stations."

    A. LEI indicates that LEI views risk to mean the degree of unpredictable and unhedgeable net revenue volatility. Does LEI consider any other factors in its definition of risk? For example, does LEI also consider variability in cash flows or earnings in its definition of risk?

    B. Please clarify and explain further whether LEI is equating the risk of a HILP nuclear safety event with the risk of "unpredictable and unhedgeabale net revenue volatility".

C. Please provide citations to independent third party research, analysis or evidence that support LEI's view that "the perceived higher levels of risk of nuclear may not take into consideration that studies have shown nuclear generation stations have higher safety records relative to hydroelectric stations."

15. Exhibit M / Page 23 Please provide the data in electronic format supporting Figure 8.

16. Exhibit M / Page 24 LEI states that "OPG's change in business risk related to climate change is limited, if any."
    a. In LEI's view, has investors' focus on ESG increased, decreased, or stayed the same as when the OEB last reviewed OPG's equity thickness in 2016?

    b. Please identify the credit rating agencies that took into account ESG considerations in 2016 in their rating methodology for regulated electric and gas utilities.

    c. Please identify any pension funds and institutional investors that explicitly took into account ESG considerations in 2016 in making their investment decisions.

17. Exhibit M / Page 26 LEI states, "Thus, climate change could lead to increased generation at OPG's regulated hydroelectric facilities and may serve to offset to some degree any potential risk due to adverse events." Please explain how the increased generation arising from climate change could offset risks due to adverse events related to climate change.

18. Exhibit M / Page 38 LEI states, regarding benchmarks it uses in its credit metrics analysis, that "S&P benchmarks used for this analysis are aligned with the 'low volatility' criteria, consistent with the categorization of regulated utilities."

    a. Please provide workpapers and Microsoft Excel spreadsheets that support the calculation of the credit metrics in Figure 17 on page 39 of LEI's report, including the calculation of a 1% change in the equity ratio for each metric.

b. It appears that LEI treats all credit metrics as being equally valuable to the assessment of equity thickness impact on credit metrics. Which of the five ratios are considered core and supplementary ratios to S&P credit assessments and what is LEI's understanding of their relative importance?

c. See Exhibit A2-3-1, Attachment 11. Please also see Attachment 1: July 12, 2016 S&P report titled "Ontario Power Generation Inc.," at 4-5. In both reports, S&P uses the medial-volatility financial benchmark table. Please provide versions of Figure 17 and Figure 18 to the LEI report using the medial-volatility financial benchmark table.

d. Please confirm whether the debt amount used in the derivation of the credit metrics in figure 17 includes pension and other post employment benefit (OPEB) obligations in accordance with S&P's calculation methodology. If not, please explain why.

19. Exhibit M / Pages 33 and 48 *Preamble:* LEI provides the following explanation of the Fair Return Standard ("FRS") (citations omitted, emphasis in original):

"For a regulator considering a regulated utility's financial risks in setting the cost of capital under the FRS, three requirements must be met: comparable investment, financial integrity, and capital attraction. Further the OEB has previously established that among these requirements, '*none ranks in priority to others*.'"

Later, LEI notes that "utility betas, beyond being a metric for perceived market risk, may be less relevant to equity thickness assessment than to the cost of equity. The determination of equity thickness should be more focused on the utility's ability to meet appropriate credit coverage ratios for debt."

*Question(s):*

Please explain how LEI's statement that the "determination of equity thickness should be more focused on the utility's ability to meet appropriate credit coverage ratios for debt" is consistent with the OEB's Fair Return Standard.

20. Exhibit M / Page 41 LEI states "Relative to lower levels, an equity thickness at 47% facilitates maintaining an investment grade rating due to reduced risk levels associated with: (i) Debt/EBITDA in 2023, 2025, 2026; (ii) FFO/Interest in 2022; and (iii) FFO/Debt in 2022." Please clarify what is meant by "an investment grade rating due to reduced risk levels."

21. Exhibit M / Page 44 LEI states that "Setting a fixed multi-year ROE presents the risk that inflation rates push bond yields higher, thus understating a fair ROE, as currently calculated using the OEB ROE framework."

    a. If the ROE for OPG is understated and lower than the fair ROE as determined using the OEB's ROE framework, would this return satisfy the Fair Return Standard?

    b. Please explain the relationship, if any, between the authorized ROE and the deemed equity ratio for a regulated utility.

22. Exhibit M / Page 47 Please provide the underlying data or workpapers for Figure 22 on page 47 of LEI's report. Please indicate whether the Beta coefficients in Figure 22 are raw or adjusted. If the Beta coefficients are adjusted, what formula was used to adjust Beta?

23. Exhibit M / Pages 47-48 Please explain how Figure 22 supports the statement that "The increase in betas since the start of the pandemic puts them near the level at the time of OEB's previous decision."

24. Exhibit M / Page 48 *Preamble:* LEI indicates that "strong economic recoveries are projected for 2021 and 2022 as immunization programs ramp up and economic activities return to pre-pandemic levels." (citations omitted). One of the sources LEI cites as supporting this statement is the Bank of Canada's "Monetary Policy Report: January 2021." On page 25, that report indicates:

    - "Uncertainty around the projection remains unusually high."
    - "The Bank assumes that broad immunity is obtained through vaccination by the end of 2021. There is a risk, however, that setbacks in the distribution or effectiveness of vaccines could contribute to another surge of the virus. The spread of new, more contagious variants could also lead governments to impose stricter lockdowns."
    - "Another key source of uncertainty is the sensitivity of economic activity to the evolution of the virus, lockdowns and other containment measures."

- “There is also considerable uncertainty about the long-term impacts of the pandemic.”
- “The pandemic may also accelerate long-term structural trends that have been underway for some time. Rapid acceleration in e-commerce may lead to less demand for retail space. Success with remote work could lead to reduced demand for office space. Experience with virtual meetings may imply less business travel. These types of structural changes tend to affect both demand and supply, with demand effects usually having an impact sooner.”

*Question(s):*

Please discuss the effect of “unusually high” projection uncertainty on LEI’s conclusions regarding the effects of COVID-19 on projected economic growth in Canada.

25. Exhibit M / Page 52 “The successful issuance of these bonds suggests there is substantial availability for debt financing that is accessible to OPG, indicating there is less need for equity thickness to increase.” - Can LEI explain in detail how Green Bond issuance (i) provide a higher debt capacity for OPG, (ii) are beneficial to OPG’s credit metrics, and (iii) allow OPG to have a higher debt capital structure?

26. Exhibit M / Page 54 LEI states “LEI believes that the peer analysis component of the proceeding has become somewhat circular, with experts basing their cost of capital recommendations on data from a similar set of comparables and using similar screening criteria.”
    a. By “the proceeding,” is LEI referring to this proceeding (i.e., EB-2020-0290), proceedings before the Ontario Energy Board more generally, or North American rate proceedings in which the cost of capital is decided?
    b. Is it LEI’s opinion that Moody’s use of three U.S.-based regulated utilities in its peer analysis for OPG is “somewhat circular.”
    c. In LEI’s opinion, are OPG’s regulated operations more comparable from a risk perspective to utility holding companies or utility operating companies?

27. Exhibit M / Page 57 LEI states “[S&P’s] most recent update in November 2020 illustrates nearly all Canadian jurisdictions ranked as ‘most credit supportive’ relative to US jurisdictions.”

a. In LEI's opinion, what are the main factors that differentiate Canadian jurisdictions "relative to US jurisdictions" such that a difference in equity thickness is warranted?
b. Please confirm that nine U.S. jurisdictions are assessed by S&P to be "most credit supportive."

28. Exhibit M / Page 57 Can LEI update figure 28 but for "Most credit supportive" and "Highly credit supportive" jurisdictions only from figure 29?

29. Exhibit M / Pages 59-61 *Preamble:* In Figures 30 and 31, LEI identifies five independent power producers ("IPPS") that it considers "analogous to regulated generators."

    a. Please provide the S&P and any other credit ratings of each of the five IPPs identified by LEI.

    b. Please provide S&P's stated expectation for FFO-to-Debt and debt-to-EBITDA (and similar metrics stated from other rating agencies) for each of the five IPPs for the 2021-2022 period.

    c. Please provide S&P's and any other rating agencies business risk assessment for each of the five IPPs.

    d. Please provide Beta coefficients for the five IPPs for the same time period and calculated similarly to the Beta coefficients presented in Figure 22.

    e. Are the equity thickness ratios in Figure 31 based on the book value of equity or the market value of equity? If the book value, please provide a version of Figure 31 based on the market value of equity for each IPP in each time period.

    f. Please provide the underlying data or workpapers for Figures 30 and 31 in LEI's report. Please provide this information in working Microsoft Excel format, to the extent applicable.

30. Exhibit M / Page 60 Regarding LEI's analysis of zero-emitting IPPs:
    a. Please explain why TransAlta's equity ratio, at 68.5%, is so much higher than the equity ratios of the other IPPs.

b. Please provide LEI's understanding of what is meant by "regulatory-style contracts" referenced by DBRS in the context of OPG's assets?

31. Exhibit M / Page 62 LEI states "Ofgem moved to lower allowed returns to below 5% (in real terms) for the RIIO-2 period."
    a. Please provide the formula and inputs to the Ofgem allowed returns for the RIIO-2 period.

32. Exhibit M / Pages 63-64 *Preamble:* LEI states that "while there is a perception among analysts that generation is riskier than wires, with nuclear potentially more risky than other generation sources, there is little discussion of the actual magnitude of the differences in the risk levels." LEI goes on to conclude that "OPG's regulated generation risk is similar to other regulated entities, and the extent of differences in revenue predictability between regulated generation and wires is exaggerated." Further, LEI indicates that "[a]djusting for greater risk would likely still result in equity thickness of consistent with the 47% recommended here."

    *Question(s):*

    a. Please provide all evidence supporting LEI's statement that "there is a perception among analysts that generation is riskier than wires, with nuclear potentially more risky than other generation sources".

    b. Please provide all analyses LEI has developed that adjusts for the risk differential between regulated generation and wires.

    c. Please provide all evidence, analyses, or research LEI has developed, reviewed, or is aware of that quantifies the magnitude of the differences in risk levels between regulated generation and wires.

    d. Please provide all evidence that debt and/or equity investors share LEI's view that regulated generation risk is similar to other regulated entities.

33. Exhibit M / Page 64 LEI states "Acknowledging that generation is more risky than wires, adjusting UK and Australian experience for greater risk would still result in equity thickness consistent with 47%." Please provide all analysis LEI has performed supporting that statement.

34. Exhibit M / Page 65 LEI discusses the potential for the proposed Small Modular Reactor at the Darlington site to mitigate some of the reductions in OPG's workforce as a result of the planned Pickering shutdown. Please explain in greater detail how the redeployment of staff to this work would mitigate the risks specifically associated with the organizational changes, business transformation and workforce redeployment (as opposed to risk of quantum and recovery of the downsizing costs) identified by Concentric at Ex. C1-1-1, Attachment 1, pp. 49-50.

35. Exhibit M / Pages 68 LEI states "Broadening the analysis to include overseas utilities and contracted IPPs, it is observed that much lower equity thickness levels have been achieved, without any apparent decrease in financeability." Absent the broadening of LEI's analysis to include overseas utilities and contracted IPPs, what would LEI's recommended equity thickness be for OPG in this proceeding?

S&P Global
Ratings

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## Summary:

# Ontario Power Generation Inc.

**Primary Credit Analyst:**
Andrew Ng, Toronto (416) 507-2545; andrew.ng@spglobal.com

**Secondary Contact:**
Stephen R Goltz, Toronto (416) 507-2592; stephen.goltz@spglobal.com

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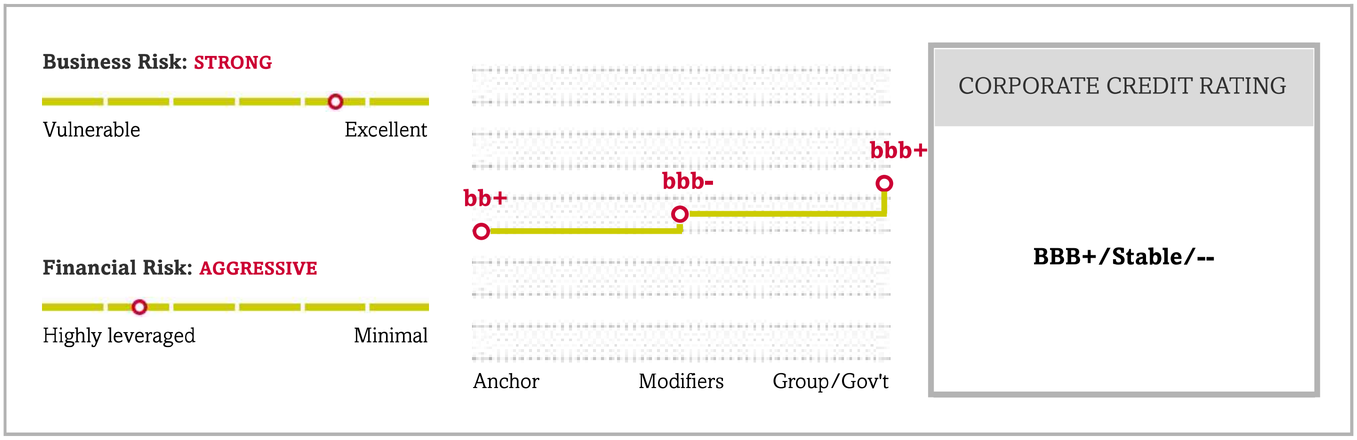
## Summary:

# Ontario Power Generation Inc.




## Rationale

| Business Risk: Strong | Financial Risk: Aggressive |
|---|---|
| • Ontario Power Generation Inc.'s (OPG) dominant position in a strong market and a diversified economy<br>• Regulatory support for the company's nuclear assets and the bulk of its hydroelectric assets<br>• A diversified portfolio of power-generating assets<br>• Low-cost hydroelectric assets with diversified river systems | • Stable, regulated cash flow<br>• Overall weak cash flow metrics<br>• Large capital programs over next several years |

**Outlook: Stable**

The stable outlook reflects our view of the 'bbb-' stand-alone credit profile (SACP) on Ontario Power Generation Inc. (OPG) and that we do not expect the likelihood of extraordinary government support to change. A one-notch deterioration in either the SACP or our rating on the Province of Ontario would not change our rating on the utility.

### Downside scenario

We believe a negative rating action on OPG is unlikely during our two-year outlook period given that both the SACP and our rating on Ontario would have to decline one notch. An unexpected change in our view of the relationship between OPG and the province to "moderately high" or lower could also negatively affect the rating. We could lower the SACP to 'bb+' if we expected a sustained drop in adjusted funds from operations (AFFO) -to-debt below 9%. Given the regulatory support OPG benefits, we view this as unlikely.

### Upside scenario

We could take a positive rating action if we expected AFFO-to-debt to be above 13% comfortably and consistently. A one-notch improvement to OPG's SACP, all else being equal with the province, would result in a one-notch upgrade. However, we view this as unlikely during our outlook period given the Ontario regulatory framework and the extent of the company's capital spending program, including the multi-billion Darlington nuclear plant refurbishment.

## S&P Global Ratings Base-Case Scenario

OPG is an Ontario-based electricity generation company whose principal business is in electricity generation and sale in the Province of Ontario. OPG supplies about half of the electricity in Ontario and is wholly owned by the province.

**Assumptions**

- OPG will continue to focus on its regulated electricity generation business
- The Ontario Energy Board, the provincial regulator, will continue to operate in a transparent, stable, and predictable manner
- The utility will not experience any adverse regulatory decisions
- OPG filed a five-year rate application for 2017-2021; with regulated nuclear rates under the custom incentive regulation and the regulated hydroelectric rates under the incentive rate making regulation, we expect OPG will get most of its revenue requirements approved
- The Darlington refurbishment project will incur no material delays and cost overruns

**Key Metrics**

| | 2015A | 2016E | 2017E |
|---|---|---|---|
| AFFO/debt (%) | 16.9 | 12-14 | 13-14 |

AFFO--Adjusted funds from operations. A--Actual. E--Estimated.

## Business Risk: Strong

Our assessment of OPG's strong business risk profile reflects the utility's strong market position (which accounted for about 50% of Ontario's electricity generation in 2015) and a supportive regulatory framework. We expect OPG will continue to generate about 95% of its EBITDA from regulated sources, recover prudently incurred fixed and variable cost in a timely manner, and earn a moderate return on capital assets.

In addition, OPG has a diverse portfolio of generation assets comprising four nuclear (including Bruce), 65 hydro-electric, two biomass stations, three thermal stations, and one wind turbine asset; therefore, OPG is not dependent on a single or few generation assets. The hydro-electric assets are subject to hydrology risk; however, this is mitigated by the multiple river systems.

Further supporting the strong business risk profile is that OPG's service territory, the Province of Ontario, has a very strong and diversified economy with modest population growth supporting electricity consumption. However, this is offset by the ongoing demand conservation programs resulting in ratepayers being more cautious about conserving energy and reduces electricity consumption.

Due to the nature of the business, OPG does not deal directly with ratepayers and does not have a large and diverse customer base. OPG's main counterparty is the Independent Electricity System Operator, a Crown corporation, which remits monthly electricity sales revenue to OPG in the subsequent month.

## Financial Risk: Aggressive

We assess OPG's financial risk profile as aggressive. For the company, we use the medial volatility table when assessing the cash flows to reflect the supportive regulatory framework and that virtually all of OPG's cash flows come from the higher end of the utility risk spectrum in electricity generation compared with that of transmission and distribution.

The company has a significant capital program over the next few years of about C$1.8 billion per year, including the Darlington nuclear facility refurbishment plus additional maintenance capital spending. We believe the high amount of capital spending will pressure the credit metrics. Given the Darlington refurbishment project execution starts in 2016, we forecast AFFO-to-debt of about 12%-14% during our outlook period.

## Liquidity: Adequate

OPG's liquidity is considered as adequate in our view. We expect liquidity sources to exceed uses by more than 1.1x over the next 12 months. In the event of a 10% drop in the company's EBITDA, we also expect there are sufficient liquidity sources to cover uses. In our view, the company has sound relationships with banks. In the event of unexpected financial stress, we expect the utility would scale back on its capital expenditures to preserve the credit metrics.

| Principal Liquidity Sources | Principal Liquidity Uses |
|---|---|
| • Cash available of about C$460 million in 2016<br>• Cash FFO of about C$1.45 billion in 2016<br>• Committed credit facilities availability total of about C$1.7 billion in 2016, of which about C$1.0 billion matures in 2021 and C$700 million matures in December 2017 | • Debt maturity of about C$273 million in 2016<br>• Capital expenditures of about C$2.0 billion in 2016 |

## Other Modifiers

We applied a positive comparable rating analysis modifier to OPG to reflect the company's dominant market position in Ontario as it contributes about 50% of the Province of Ontario's power generation. In addition, the company also benefits from a high proportion of regulated cash flow, providing predictability and stability in its electricity generation business. Other modifiers have no impact on the rating.

## Government Influence

We believe there is a high likelihood that OPG's owner, the Province of Ontario, would provide timely and sufficient extraordinary support to the company in the event of financial distress. This is based on our assessment of a very strong link and an important role in accordance with our government-related entity criteria. Our assessment further reflects our view that:

- OPG's role to the Province of Ontario is important because it supplies more than 50% of the province's electricity

usage. In addition, OPG provides an essential infrastructure to Ontario and its activities relates to an important public policy role (energy and environmental policies).
- OPG has a very strong link with Province of Ontario because Ontario owns 100% of OPG (strong shareholder) and has a track record of providing support to OPG (through the Ontario Electricity Financial Corporation).

The high likelihood of extraordinary government support provides a two-notch rating enhancement to OPG's 'bbb-' SACP.

## Ratings Score Snapshot

### Corporate Credit Rating

BBB+/Stable/--

### Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

### Financial risk: Aggressive

- **Cash flow/Leverage:** Aggressive

### Anchor: bb+

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

### Stand-alone credit profile : bbb-

- **Likelihood of government support:** High (+2 notches from SACP)

## Related Criteria And Research

### Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013

- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

**Business And Financial Risk Matrix**

| | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | Minimal | Modest | Intermediate | Significant | **Aggressive** | Highly leveraged |
| Excellent | aaa/aa+ | aa | a+/a | a- | bbb | bbb-/bb+ |
| **Strong** | aa/aa- | a+/a | a-/bbb+ | bbb | **bb+** | bb |
| Satisfactory | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |