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Ken Hartwick Remarks – 2017 Financial Results Investor Call

Good morning and thank you all for joining Ontario Power Generation's investor's call to discuss our fourth quarter and full year 2017 results. Our current intention is to do these semi-annually.

Before I begin, please refer to Slide 2 Disclaimers for a caution on forward-looking statements and the use of non-GAAP financial measures in this presentation. Note that certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from what is stated. This slide also indicates where to find more information on these topics and what factors could cause actual results to differ materially from those stated.

We're pleased to have this opportunity to update you and share our results. 2017 was another strong year for the company, both operationally and financially.

We recorded continued improvement in year over year earnings, while working to ensure we remain Ontario's lowest-cost, clean power generator.

We made significant progress on the Darlington Refurbishment, which continues to track on time and on budget.

We saw strong performance at Pickering Nuclear, which continued to operate safety and reliably, generating an additional 1.5 terawatt hours through outage optimization and improving our forced loss rate. This helped to offset some of the decrease in generation as a result of the Darlington refurbishment.

In fact, both of these nuclear facilities were awarded the Canadian Nuclear Safety Commission's highest safety ratings. Looking ahead, ensuring the safety of our employees, our neighbours and the environment remains a strong enterprise-wide focus.

With the Province's recent commitment to refurbishing Darlington's Unit 3 and last December's OEB rate decision, we now have the support to advance our major projects and continue to deliver value to our Shareholder, the Province of Ontario, and the people of Ontario.

In 2017 OPG also continued to build our relationships with Indigenous communities. For instance, the new Peter Sutherland Sr. Hydroelectric Generating Station went into service in partnership with the Taykwa Tagamou First Nation ahead of schedule and on budget.

In October 2017, OPG successfully closed its inaugural bond offering under a Medium Term Note Program. The $500 million unsecured 10-year bonds were priced with a coupon of 3.315%, payable semi-annually until maturity in October 2027, and were placed with approximately 50 investors in the Canadian market place.

The offering was made under OPG's $2 billion short form base shelf prospectus filed in September 2017 and represents OPG's first entry into the Canadian public debt market. The offering received positive interest from investors and enhances the Company's financing flexibility. The net proceeds have been used for general corporate purposes and to finance a portion of OPG's debt investment in Ontario's Fair Hydro Plan.

On that last point, our participation in Ontario's Fair Hydro Plan culminated in the establishment of the Fair Hydro Trust in December, with our first purchase of Investment Interest acquired from the IESO towards the end of the year for approximately $1.2 billion.

OPG recorded continued improvement in year over year earnings, with an increase in net income attributable to the shareholder of $424 million compared with 2016.

Our results were mainly driven by our Regulated Hydro and Contracted Generation segments, which continued to have strong operational performance at higher margins. Pickering Nuclear also experienced increased production in 2017.

Continued cost management also played a factor, augmented by the sale of our head office premises during the second quarter of the year, which generated an after tax gain on sale of $283 million. This gain will be returned via dividend to our Shareholder via Infrastructure Ontario.

This contributed to the bottom line to offset the effects of lower generation while Darlington's Unit 2 was offline for refurbishment.

We added to our in-service capacity during the year, with the completion of Peter Sutherland and the upgrades to Sir Adam Beck I providing an additional 33 megawatts of capacity.

This helped to maintain a strong generation portfolio of virtually emission-free assets with an in-service capacity of 16.2 terawatts across our fleet.

As I have already mentioned, our generation performance for the year remained strong, despite the anticipated reduction in generation from Unit 2 refurbishment.

Our generation performance by percentage for our Darlington and Pickering nuclear operations, as well as our regulated and contracted hydroelectric generation, breaks down as follows:

The Nuclear Unit Capability Factor represents actual energy generated, adjusted for external constraints such as transmission or demand limitations. 2017 results were 85.2 per cent for Darlington and 80 per cent for Pickering.

Hydroelectric availability, which represents the amount of time that units are capable of producing electricity as a percentage of the total time for a respective period, was 88 percent for our regulated and 74.6 per cent for our contracted hydroelectric.

Despite the reduction in generation overall, we still managed our overall costs of production to continue to deliver electricity at an efficient rate.

We view Total Generation Cost as a key measure of our effectiveness in operating our generation plants. The increase of year over year enterprise TGC from $48.45 to $50.66 per megawatt hour was expected and mainly attributable to the lower generation as a result of the Darlington refurbishment.

However, had refurbishment not been a factor, we estimate that our enterprise TGC would have been approximately $4 to $5 per megawatt hour lower. This continues to demonstrate our position as one of the lowest cost generators in North America.

Looking at OPG's Return on Equity, the company's consistent performance continues to provide great value to our Shareholder. In fact, our higher return on equity of 7.6% compared to 4.2% in the prior year further demonstrates the value that the company provides Ontarians while also delivering clean, reliable electricity to ratepayers.

As I noted earlier, on December 28, 2017, the Ontario Energy Board issued its decision on OPG's five-year application for new regulated prices for its nuclear and regulated hydroelectric generation.

This slide contains specific details within the decision, but of most relevance is the fact it provides the company with a stable revenue stream from its regulated facilities up to 2021, and ensures that the company will continue to deliver clean, safe and reliable energy to the province for years to come.

With units at Darlington in refurbishment throughout this entire period, the loss of generation to execute this work was the key driver of rates for this period. The OEB recognized this impact in setting nuclear rates.

The decision is also the first under an Incentive regulation approach for the majority of our hydroelectric and nuclear fleet where annual increases are set by a ratemaking method that reflects inflation but also challenges the company to drive further productivity.

The impacts of the decision mean we will continue with the Darlington refurbishment and also extend commercial operations at Pickering beyond 2020, further securing more than 3,000 jobs. It also means our hydroelectric fleet will continue to operate as planned with key investments being undertaken as identified to ensure several decades of further generation.

While the decision also challenges us with reductions in operations, maintenance and administration expenses over the period covered, the company is confident that it can continue to drive toward best in class operating performance.

Looking at our major Investment Priorities, we continue to remain within the approved budgets for all of our major projects.

Focusing in on Darlington, we continue to make strong progress Canada's largest clean energy project.

2017 provided some significant milestones. We successfully de-fuelled the reactor and segregated Unit 2 from the three operating units during the first half of the year.

Disassembly of the reactor components started in Q3, and our goal is to finish removing all these components in mid-2018. We will then begin reassembling the reactor, with a target date of completion by February 2020.

The refurbishment of Unit 3 is also scheduled to start in 2020. Planning and procurement is already underway in anticipation of this next phase.

We also continue to invest in upgrades to our hydroelectric and renewable fleet.

Construction of a 10 megawatt single-unit powerhouse at our Ranney Falls generating station began in 2017, and is expected to be placed into service by the end of 2019. The project is tracking on time and on budget.

At Nanticoke, decommissioning the previous coal-fired generating station is underway. Some of you may have seen media coverage of the demolition of the stacks last week. We now look forward to the construction of the Nanticoke Solar Project, which will add 44 megawatts of sustainable energy to our portfolio. This is yet another project that OPG will partner with Indigenous communities in constructing.

In 2017, we confirmed the potential for extending operations at Pickering beyond 2020.

This plan is in keeping with the Province's Long Term Energy Plan, and based on the technical feasibility work performed to date, with additional financial support provided in the OEB decision.

The current operating licence will expire this August, but a renewal application with the Canadian Nuclear Safety Commission is in progress. The final major component of our Periodic Safety Review was completed and submitted to the Canadian Nuclear Safety Commission in November, and we expect our application to be heard during 2018.

We are seeking a 10-year license for Pickering up to 2028, which is expected to take us beyond the period of commercial operations, and the time required to place Pickering in a safe storage state post operations.

Continuing Pickering's operation beyond 2020 is projected to save Ontario electricity customers up to $600 million. It will also ensure Ontario continues to benefit from a safe, clean and reliable source of baseload generation during the refurbishment of Darlington and the initial refurbishments being planned for the Bruce nuclear units operated by Bruce Power.

During 2017, OPG worked towards the implementation and execution of the Province's Fair Hydro Plan which was introduced early in March. In December 2017, the Fair Hydro Trust was established and it successfully executed the acquisition of the first tranche of Investment Interest from the IESO for $1.18 billion.

About $600 million of the purchase price was funded through a revolving warehouse facility, $520 million from proceeds of Class A share issuance to the Province, and the remaining balance was funded by OPG.

Last month, the Fair Hydro Trust issued 15 year notes to refinance the majority of the funding provided by the revolving warehouse facility that was established in December. The notes bear interest at a rate of 3.36%. We were pleased with the market receptivity and would anticipate being back to market 3 times a year. The Fair Hydro Trust expects to acquire another tranche of Investment Interest from the IESO in March 2018.

We have recently gone to market to support our funding needs. In 2018, we have almost $400 million of debt maturing. We will continue to look at the best ways to support our funding requirements going forward.

As part of our future decommissioning obligations at our nuclear facilities, OPG segregates funds for the purposes of discharging these obligations as they come due.

We have two separate segregated funds established. The Decommissioning Segregated Fund is established to fund the future costs of nuclear fixed asset removal, long-term nuclear waste management. The Used Fuel Segregated Fund is established to fund the future costs of nuclear used fuel management.

OPG's contributions to these segregated funds is governed through the ONFA reference plan that is in force at a given point in time. Based on the current funded status of both funds, we are not currently required to make any contributions to either fund in line with the ONFA reference plan. This provides further liquidity to the company at present to continue to invest in the strategic initiatives outlined previously.

I'd like to leave you with the key performance milestones that support an overall positive outlook for the company in 2018.

2017 provided strong financial results for OPG and it represents our third year-over-year increase in net income.

The OEB's rate decision provides substantial price certainty for our regulated segments up to 2021.

We continued our strong project execution on the Darlington Refurbishment, which was recently recognized by the Province's commitment to move ahead with Unit 3 refurbishment. This and our other capital projects remain on budget and on schedule.

We established a public debt platform to support liquidity requirements.

We were also successful in establishing the Fair Hydro Trust which we expect to have a positive contribution to our financial results going forward.

All of these factors put OPG in a position to succeed and generate value for the Shareholder in 2018.

We will now open up the call to questions.

I would like to thank you for joining the call and hope you will join us for our mid-year 2018 update on our next call.