CORPORATE PARTICIPANTS

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Ken Hartwick
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CONFERENCE CALL PARTICIPANTS

Steven Dafoe
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Nigel Heath
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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the OPG Investor Call. I would now like to turn the meeting over to Mr. Neal Kelly, Director of Media Relations and Issues Management. Please go ahead, Mr. Kelly.

Neal Kelly, Director of Media Relations and Issues Management, Ontario Power Generation

Thank you, Francis, and welcome to our investor call to discuss Ontario Power Generation's year-end financial and operational results. My name is Neal Kelly.

I'm joined today by OPG President and Chief Executive Officer, Ken Hartwick, and Alec Cheng, OPG Treasurer. Mr. Hartwick and Mr. Cheng will present a slide deck that you will be able to follow on your computer if you are logged onto this WebEx. Once the presentation is finished, we will be able to open the frame to questions for investors. I will facilitate the question-and-answer session and the Operator will provide instructions to investors with questions.

Just a reminder, this is an investor call. Media and others are welcome to listen, but only investors will be able to ask questions.

Before I turn things over to Ken, I want to bring your attention to Slide 3, disclaimers for a caution on forward-looking statements and the use of non-GAAP financial measures in their 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 topics and what factors could cause actual results to differ materially from those stated. You'll also see a slide for today's agenda.

I will now turn the call over to Ken.

Ken Hartwick, President and Chief Executive Officer Ontario Power Generation

Thank you, Neal. Good morning and thank you for joining this call. We're pleased to have the opportunity to share our 2019 results and to discuss how we are continuing to achieve our strategic goals.

Before I begin, I would like to touch on the COVID-19 outbreak and recent market volatility. OPG is closely monitoring for the latest developments in this evolving situation. The threat to our operations, personnel, and assets in Ontario is currently assessed as low. I want to emphasize that we have a robust business continuity plan and protocols in place to keep our critical operations running safely while protecting the health of our employees and our contract partners.

I also want to assure you that OPG has a strong foundation in the electricity generation business that currently market fluctuations will not have any significant impact on our operations or pending acquisitions.

This past year we experienced strong financial and operational performance while working to ensure we remain Ontario's largest low-cost clean power generator. The main driver of our positive results was higher nuclear generation due to fewer outage days and a strong outage execution, which resulted in higher revenue and lower OM&A expenses.

Our Regulated-Hydro generation also experienced an increase in production due to high water flows across the province, particularly in the spring during a very challenging freshet. I want to call out our renewable generation team, whose notable efforts in partnership with municipalities and local authorities, helped mitigate the impacts to communities while managing the water in a safe and a coordinated manner.

As mentioned, our nuclear operations performed admirably in 2019 with fewer outage days at our Darlington and Pickering Stations. In particular, our

Pickering Nuclear Station reported its highest-ever yearly output and received an exemplary rating from the World Association of Nuclear Operators. This recognition places Pickering among the top-performing nuclear stations in the world. Pickering's record-setting performance reflects the investments we have made in the station's continued safe operations. We remain committed to safely and optimally operate Pickering until it reaches its end of commercial operations, and we expect the station will play a vital role for Ontario over the next several years.

On the topic of Pickering, I'd like to touch on the false alert that was sent out by the province on January 12 which raised concerns for many Ontarians. A provincial investigation has confirmed the alert was issued in error by the Provincial Emergency Operations Centre during routine training. While the immediate cause was human error, there were several systematic issues that contributed to both the false alert and the delay in issuing a cancellation. We hope these findings will help prevent a similar incident in the future and make Ontario's emergency management system even stronger. We want to insure everyone that Pickering is operating as designed and remains one of the safest nuclear generating stations in the world.

Moving onto the Darlington refurbishment, I am pleased to report that the overall project remains on time and on budget. Our work on Unit 2, the first of the four units to be refurbished at Darlington, is close to completion. We expect the unit to return to service late in the second quarter of this year. Planning is ongoing to work on Unit 3 with refurbishment set to begin early the second quarter. This critically important project will extend the operating life of the Darlington Station by at least 30 years, and I am confident we will continue to execute successfully.

2019 also marked by the growth and expansion of our Company. In the summer we entered into a purchase agreement to acquire a portfolio of combined-cycle gas plants in Ontario which will add more than 2,000 megawatts to OPG's in-service generating capacity. As part of this acquisition, we closed on the remaining 50 percent interest in the gas-fired Brighton Beach generating station in August, and we expect our acquisition of the Halton Hills Napanee and the remaining 50 percent interest in Portland's Energy Centre to close in the next number of weeks.

We also closed on our acquisition of Cube Hydro, an operator of 19 small- and medium-sized hydro facilities in the U.S., representing a total of 385 megawatts of capacity. These strategic acquisitions will strengthen OPG's operations while providing reliability to Ontario's electricity system with dispatchable power to back up intermittent sources like wind and solar. They also return good value to the province.

OPG believes climate change is not the future, it is the present, and its consequences are already affecting the lives of Ontarians. We delivered the world's single largest climate change action to date by closing our coal stations. With the Darlington refurbishment, the expansion of our hydroelectric generating assets, and through clean power partnerships like the Gull Bay micro grid and the Nanticoke solar facility, we are already a clean power leader.

Now we have sights on being North America's leading climate change company by advancing clean technologies and solutions to help the markets where we operate to achieve a net zero carbon economy. This includes being a catalyst for efficient economy-wide de-carbonization, nurturing entirely new industries and new careers for Ontarians. We're the leading development of new technologies like small modular reactors, ensuring province-wide charges for electric vehicles, advancing the potential of vehicle-to-grid integration, and making sure customers benefit from electrification. A comprehensive climate change strategy which outlines our goals and plans for achieving this vision will be released in the second quarter.

Overall I am pleased with our performance in 2019. We made strides to get more out of our generating assets and greatly improved on outage execution at our nuclear plants. We made efforts to grow the business for the future, and our employees continue to work with safety as their top priority.

Going forward, we remain committed to operating safely and reliably while delivering clean power and excellent value to our shareholders and the people on Ontario.

Now, I'd like to turn things over to Alec Cheng, OPG's Vice President and Treasurer, to go over the past year's results in more detail.

Alec Cheng, Vice President and Treasurer, Ontario Power Generation

Thanks, Ken. For the year ended December 31, 2019, OPG reported net income attributable to shareholders of $1.13 billion compared to $1.2 billion in the previous year. In 2018 we recognized receipt from the sale of our former Lakeview site and our refundable tax credit in the first quarter of that year. After excluding these, our 2019 net income attributable to shareholders sat at $221 million higher than 2018.

As Ken mentioned, largely driving this overall increase was the higher generation and lower OM&A expenses from our Regulated-Nuclear segment. This was in large part due to fewer outage days experienced at our Pickering Station.

Looking at our segment performance, earnings from our Regulated-Hydroelectric and nuclear generation both increased over the previous year. In particular, our earnings from the Regulated-Nuclear segment increased by $281 million, reflecting higher generation and lower OM&A expenses due to lower outage-related activities at our stations. Meanwhile, returns from our hydroelectric assets increased due to higher base regulated prices for these facilities and fewer outages across the stations during the year.

The sale of the former Lakeview site in 2018 resulted in some earnings variability. Overall our core generation business remains healthy and growing.

Looking at our electricity generation, production from all of our segments saw improvement in 2019 over the previous year. On the Regulated-Nuclear side, production increased by 2.6 terawatt hours. As previously mentioned, this was due to fewer overall outage days at the Pickering Nuclear Station, resulting in higher reliability from the station during the year.

Our hydroelectric stations continued to operate with stability, and production from this segment saw an increase of 0.7 terawatt hours this past year due to high water flow across much of the province, primarily in the spring.

In the Contracted and Other generation segment, we saw a positive impact to the production of our acquisition of Eagle Creek and Cube Hydro in the United States. This increase was partially offset by lower water flow experienced at our contracted facilities in Ontario in the second half of the year.

Our Enterprise Total Generating costs, TGC, is the cost to generate 1 megawatt hour of electricity in Ontario. In 2019 our TGC decreased compared to the same period in 2018. Higher generation from our Regulated-Nuclear and Hydroelectric facilities, as well as lower OM&A expenses from the same facilities all factored into this decrease in 2019.

Moving on, we made significant advances in some key clean energy projects this past year. On the Darlington refurbishment, the overall project is tracking on schedule and to its $12.8 billion budget. In 2019 we completed the lower body tubing installation, marking the end of the third major segment. We are now in the fourth segment and have completed fuel loading.

In January we recognized another major milestone by successfully filling the primary heat transport system. We're now executing work to reconnect Unit 2 back to the operating units. We remain fully committed to finishing work on Unit 2 with quality and safety as our top priorities. The unit is expected to return to service late in the second quarter.

Meanwhile, planning continues for the refurbishment of Unit 3. The project team and our partners are incorporating thousands of lessons learned to date on Unit 2 refurbishment. We expect work on Unit 3 to begin early in the second quarter.

In January 2019 we initiated a plan to improve dam safety along the lower Mattagami River with the Little Long Dam Safety Project. This work will provide additional discharge capacity to help us meet the updated dam safety requirements established by the province. It will also keep OPG's hydro station running safely, protect the community, and reduce the impact to the environment from rising water levels. This project is currently in the execution phase and is expected to be in service in 2023 with an approved budget of $650 million.

At Niagara Falls we have begun a project to overhaul and replace two outdated generating units at our Sir Adam Beck I hydro station. The project is expected to add 125 megawatts of incremental generating capacity and provide several more decades of low-cost clean power from our flagship hydro facility. We expect the two new units to be in service in 2022.

In Campbellford we have completed the construction on a new 10-megawatt single unit powerhouse at our Ranney Falls Station. The new unit replaces an existing unit that reached its end of life in 2014 and doubles the station's overall capacity from 10 megawatts to 20 megawatts. Commissioning activities are continuing. However, due to equipment component issues, we now expect the unit to be in service in the first half of 2020 instead of the original in service date of the fourth quarter of 2019. The project remains on budget.

OPG's working to build its business to become an energy industry leader. This means we are investing in our core assets and strengths by allocating resources to our operations in both the Regulated and Unregulated businesses. These investments will allow us to maintain our scale of operations, moderate customer prices, and provide positive return to our shareholders. Our growth strategy also includes strategic acquisitions to maintain our leadership role in helping to de-carbonize Ontario's economy.

Looking more closely at our approach to become a clean energy leader, we are making some key investments to grow our business while driving economic growth for Ontario. This includes important investments in the redevelopment and upkeep of our core nuclear and hydro operations, as well strategic acquisitions like Cube Hydro and Brighton Beach.

We are also investing in new developments for the future such as small modular reactors, which promise to be a source of cost-effective, reliable, and carbon-free energy.

In addition, we are expanding our business to meet customer needs through new innovative energy services. This includes our new Ivy Charging Network for electric vehicles which was launched in partnership with Hydro One and will soon be Ontario's largest fast-charging network.

It is also reflected in our medical isotopes program in 2019. We reached an agreement to produce cobalt at our Darlington Station which will also soon produce Molybdenum-99. Both of these life-saving medical isotopes are critical to safeguarding the global healthcare industry.

Finally, we continue to prepare the closure of our Pickering Station, which will reach its end of commercial operations at the end of 2024. Any changes to this schedule will be subject to CNSC approval through a public hearing process. We are working to manage the impact of Pickering closure on the Company, our employees, and the community.

As previously mentioned, we entered into agreement last summer to acquire a portfolio of combined-cycle natural gas-fired plants in Ontario. This included the acquisition of the remaining 50 percent interest in the Brighton Beach Station in August and an agreement to acquire Napanee and Halton Hills stations and the remaining 50 percent interest in the Portlands Energy Centre. We expect the acquisition of these facilities to close in the next number of weeks, and despite the volatility in the market in recent weeks, we expect to have the financing capability to close this acquisition.
These gas facilities already operate under contracts with the IESO and other counterparties. Combined these acquisitions will add more than 2,000 megawatts to OPG's in service generating capacity.

Looking at our overall corporate profile, OPG remains to have a strong balance sheet backed by $55.4 billion of assets, revenue, and cash flow from operations to remain stable and growing. We also demonstrate strong credit worthiness with long-term credit rating from S&P Global at BBB+, DBRS at A (low), and Moody's at A3. OPG's results are supported by stable operations through our regulated fleet and supplemented through long-term contracts for much of our non-regulated facilities. OPG continues to monitor and manage our credit rating profile and metrics and intends to maintain a strong investment grade credit rating.

In terms of our overall capital structure, the Company has diversified its financing base through a mix of public debt and funding from the Ontario Electricity Financial Corporation. The Company is also well positioned in terms of liquidity with a long maturity timeframe on its debt.

The upcoming acquisition of the natural gas facilities will be financed over the long term through debt capital markets. However, the closing of this transaction can also be accomplished through the OEFC and short-term programs, including the existing and expanded commercial paper and credit facilities and term loans. Utilizing short-term funding allows us to be responsive to market conditions and ensures an orderly access to the long-term debt markets, especially during the recent volatile market backdrop.

We believe all of our recent investments and acquisitions will ultimately benefit the shareholders and the people on Ontario, providing great value for decades to come.

I would now like to turn it back over to Ken to talk about the Company's outlook and close out the presentation.

Ken Hartwick, President and Chief Executive Officer, Ontario Power Generation

Thanks, Alec. As a Company, OPG is stronger today than it was a year ago. We are executing our core strengths of producing clean, low-cost, reliable power for Ontario, and we are growing our Company and promising to deliver more value through several key strategic acquisitions.

In our Regulated-Nuclear business, we have benefitted from regulatory price certainty and fewer planned outage days, thanks to our excellent outage performance.

Looking ahead to 2020, we expect a year-over-year decrease in net income due to planned outage activities and the ongoing Darlington refurbishment. But this decrease should be partially offset by higher regulatory rates approved by the Ontario Energy Board and rate smoothing deferrals.

On the Darlington refurbishment project, we expect Unit 2 to return to service in the second quarter. Our project team and partners remain focused on completing this work safely and to the highest standard of quality, and we are confident the overall refurbishment project will stay on budget and on schedule.

In our Regulated-Hydro and Contracted and Other generation segments, we continue to achieve stable earnings and cash flow, and we expect to see a comparable level of performance from these operations in 2020.

Meanwhile, cash flow from operating activities is expected to decline slightly in the coming year, again due to planned nuclear outage activity expected in 2020.

Overall I'm pleased with the progress we've made in all the areas of the Company in 2019, including operational and safety excellence. In 2020 we will continue to maintain our strong footing while generating value and clear, reliable, and low-cost power for Ontario.

I'll now turn the call back to Neal Kelly.

Neal Kelly, Director of Media Relations and Issues Management, Ontario Power Generation

Thanks, Ken. We will now begin the question-and-answer session and I will ask the Operator to run through the process for investors to introduce their questions. Just a reminder, this is an investor call. Therefore, only investors are able to ask questions. I'll remind investors to follow the Operator instructions, and please identify yourself before asking a question. Operator?

QUESTION AND ANSWER SESSION

Operator

Thank you very much, Mr. Kelly. We will now take questions from the telephone lines. If you have a question and you're using a speakerphone, please lift your handset before making your selection. If you have a question, please press star, one, on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star, one, at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

The first question is from Stephen Dafoe from 1832. Please go ahead. Your line is open.

Steven Defoe

Good morning and thanks very much for having the call. I have two questions. First, could you talk about the contracted output? Break it down between the ISO and other counterparties, maybe describe what the other counterparties are, you know, large industrial, commercial, and give us any other descriptives of those contracts. Are they all firm, or are they near firm, or interruptible?

Ken Hartwick, President and Chief Executive Officer, Ontario Power Generation

Sure. Thanks for the question. First of all, virtually all of the contracted output is on contracts with the IESO. So whether it's some of the hydroelectric facilities that we have built in various parts in Ontario or the gas plants. Most of the contracts in Ontario are with the IESO.

For the U.S. ones, that being Eagle Creek and Cube, they're smaller and much more merchant-oriented. To the extent that there are contracts there, they are shorter term, typically with either a utility, market operator or an industrial counterparty. But they're more reflective of the actual markets they participate in.

But virtually everything in Ontario is IESO-oriented.

Steven Defoe

Okay, thank you. I have a question about the interest expense. Interest expense is about $350 million, but about $220 million was capitalized, which seems high given that the major projects, now Units 2 and 3, reflect much less than two-thirds of all assets. Could you just explain why so much is being capitalized?

Alec Cheng, Vice President and Treasurer, Ontario Power Generation

Can you repeat the last part of the question?

Steven Defoe

Why is such a large proportion, about two-thirds of the interest expense, being capitalized?

Alec Cheng, Vice President and Treasurer, Ontario Power Generation

Yes, this is in part due to the in service profile of our capitalized assets and largely looking at the Darlington refurbishment, which we're close to being done with Unit 2. Once Unit 2 is in service, then a big chunk of the capital will be in service and that will also over time drive the capitalized interest down.

Steven Defoe

Okay, thank you.

Operator

Thank you. Once again, please press star, one, on your telephone keypad if you have a question.

The next question is from Nigel Heath from Manulife. Please go ahead. Your line is open.

Nigel Heath, Manulife

Hi Ken, hi Alec. Hey, I've got a quick question about Unit 2. It's good news to hear that you're on track and on budget there, but can you give us an update on what are the remaining elements of that refurbishment? Like, what are the risky components that still have to be closed off here?

Ken Hartwick, President and Chief Executive Officer, Ontario Power Generation

Yes, good question. I think that when you look at Unit 2, we are getting very close. We always talk about towards the back part of March the unit will be handed back over to the station operations, so from the project team. Then you really go through a unit start-up. You know the unit's been out of service for a little over three years, and it's now the restart of the unit itself. It's sort of sealed, so to speak. It's been refueled, the water's back in it in the various transport systems, and now it turns back to the station for a restart.

That's a complex process because you're trying to bring the chemistry of the unit back and getting it back to bring it back to critical. It's something that we feel very confident with the station perspective that they have been planning and working on this, but it's a complex and very sort of iterative process where we will bring the unit back up to a certain power level, and then take it back down, then back up as you go through the restart, just to ensure all the safety and operating systems work the way they are intended to do. It's something that takes a period of time to do. But again, we're very confident that the quality of the unit that is being handed back to the station is exceptionally high. We're very, very pleased with the work that's been done, but that's a process that—it'll take the time that it takes and it's important to do the restart safely and to the standards that we expect, that CNSC would expect. But like I say, we're pretty confident where we are right now.

Nigel Heath, Manulife

Okay, thanks for that. You also mentioned strategic acquisitions and you continue to look at acquisitions. Last thing I heard was you were on a pause with respect to acquisitions. Has that—can you sort of explain where you're at with acquisitions going forward now?

Ken Hartwick, President and Chief Executive Officer, Ontario Power Generation

I'd say we are still on a pause, to be clear. I think firstly, on the TC Energy gas assets, we're still working through that transaction, still working through Competition Bureau approval and other approvals that are required. As I mentioned last time, I want to ensure that we close off on the transaction, get the assets integrated appropriately and with other gas assets that we have. But yes, I'd say we're still paused.

We always spend time looking around the market and just seeing—making sure that we're aware of what's moving, but I don't think you'll see us doing anything significant over the course of the next quarter or two.

Nigel Heath, Manulife

Okay, thanks. That's it for me.

Operator

Thank you. There are no more questions registered at this time. I'm giving the lead back over to you, Mr. Kelly.

Neal Kelly, Director of Media Relations and Issues Management, Ontario Power Generation

Okay, thank you Francis. As always, investors with follow-up questions can call OPG's Investor and Media Relations line at 416-592-4008 or 1-877-592-4008. Thank you for participating and have a wonderful day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.