CORPORATE PARTICIPANTS

Jackie DeSouza
Director of Corporate Communications

Ken Hartwick
President and Chief Executive Officer

John Mauti
Chief Financial Officer and Senior Vice President of Finance

CONFERENCE CALL PARTICIPANTS

Joe Dhillon
Connor Clark & Lunn

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the OPG Investor Call.

I would now like to turn the meeting over to Ms. Jackie DeSouza, Director of Corporate Communications. Please go ahead, Ms. DeSouza.

Jackie DeSouza, Director of Corporate Communications

Thank you, Louise, and welcome to our investor call to discuss Ontario Power Generation's second quarter financial and operational results.

I'm joined today by OPG President and Chief Executive Officer, Ken Hartwick, and OPG Chief Financial Officer and Senior Vice President of Finance, John Mauti. Mr. Hartwick and Mr. Mauti will present a slide deck that you will be able to follow on your computer if you are logged on to this WebEx. Once the presentation is finished, we will be open to questions from 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 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 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 Hartwick.

Ken Hartwick, President and Chief Executive Officer

Thank you, Jackie. Good morning and thank you all for joining this call. We're pleased to have the opportunity to share our results from the first half of the year and discuss how we continue to achieve our strategic goals.

In the first six months, OPG delivered strong financial and operating results driven in large part by a higher revenue and higher generation from our nuclear business. One major highlight has been Unit 1 at our Darlington Nuclear station, which set a new Canadian and North American record July with 895 consecutive days of operation and it's still running. At Pickering Nuclear, our team worked through the pandemic to return the station’s Unit 1 back to service after a successful planned outage. I want to thank our teams at Pickering and Darlington for continuing to demonstrate solid leadership and efficient and reliable operations.

We also hit a significant milestone in June, with the successful return to service of Darlington's refurbished Unit 2. Since June 4, the unit has been connected to the grid and is now once again generating clean, cost-effective power to support the province during this important time. This would have been a significant feature in normal circumstances, but the achievement is even more remarkable given the current situation we're all living through. It's an achievement that speaks to our expertise, innovation and commitment to safety above all. And we will apply all these lessons to Unit 3's refurbishment which is scheduled to begin by September.

Also, in June, Global First Power, Ultra Safe Nuclear Corporation and OPG joined a joint venture. Global First Power with the goal of advancing the development of a proposed Micro Modular Reactor at the Chalk River laboratory site. We see SMRs as an important part of Canada's effort to combat climate change. This technology is safe, small, adaptable, and most importantly zero carbon. And OPG is excited to be playing a leading role in its development.

As I mentioned in June, OPG safely relaunched onsite activities on all key projects that were put on hold in response to COVID-19. These included the resumption of prerequisite activities for the refurbishment of Darlington's Unit 3, which is set to start defueling by September. The commissioning of the new 10 megawatt single unit powerhouse at our Ranney Falls site, the Little Long Dam Safety Project, the replacement of the G1 and G2 units at our Sir Adam Beck 1 hydrostation, and the redevelopment of our Calabogie Hydro site.

In addition to injecting millions of dollars into the economy, these projects are critical to OPG's business going forward. As our employees come together to collaborate after months apart, we are continuing to place an emphasis on enhanced safety measures which include physical distancing and personal protective equipment use. We know COVID-19 will be with us for an extended period of time. While we're uncertain about what the future may hold, we remain agile to address any potential impacts on our operations and projects and continue to play our part as Ontario's largest power supplier.

With that said, I'm extremely proud of our collective response to this challenge. It hasn't been easy, but we have shown strong leadership in our operations, project execution and responding to the needs of our community and front line healthcare workers. We have shown that we can rise to the challenge and exceed all expectations. I'm confident we will continue to help lead Ontario in the months and years ahead for the more prosperous future.

As we all know, the past several months have been difficult for everyone. Our business and our employees have had to adapt to the realities of COVID-19 pandemic. We continue to monitor and respond to this outbreak to protect the health and safety of our employees, partners and communities. Despite the challenges, OPG's core business has not been fundamentally affected and our response measures and preparedness plan have been effective at managing pandemic-related risks to date.

In the first half of the year, we were able to deliver strong performance and execute on a number of significant projects. Most importantly, we work safely with zero confirmed cases of COVID-19 at our work sites. To help safeguard our workers, beginning in mid March of 2020, OPG temporarily deferred or suspended onsite activities for a number of projects, including the refurbishment of Unit 3 at the Darlington Nuclear Station. Since June of this year, we're pleased to have safely restarted these activities and have begun prerequisite work activities for the refurbishment of Darlington Unit 3.

We are continuing to work this while ensuring we follow enhanced safety measures based on public health guidance. Our accomplishments so far this year are truly a testament to the ongoing dedication and commitment of our employees. Our workforce has stepped up a huge way during this difficult time to provide a level of certainty with the ongoing generation of clean, reliable power for the province. We're now relying on their efforts as we relaunch and advance more than 200 business-critical projects and initiatives that will help lead Ontario's economic recovery.

Now I'd like to turn things over to John Mauti, OPG's Chief Financial Officer, to go over the past quarter results in more detail.

John Mauti, Chief Financial Officer and Senior Vice President of Finance

Thanks, Ken.

For the three months ended June 30, 2020, OPG reported net income attributable to the shareholder of $458 million compared to $351 million in the same quarter of 2019. As Ken mentioned, largely driving this overall increase was higher revenue from our regulated prices and higher nuclear generation. The higher nuclear electricity generation was primarily due to the return to service of Darlington Nuclear's Unit 2 on June 4 following refurbishment and fewer planned cyclical maintenance outage days at the station. This was partially offset by a higher number of planned outage days at our Pickering station. The year-over-year change in our nuclear regulated price was previously approved by the Ontario Energy Board as part of our current 2017 to 2021 rate term.

As a result of the Company's COVID-19 response measures, OPG temporarily deferred the start of refurbishment execution activities on Darlington's Unit 3, which resulted in all four Darlington units supplying electricity to the grid for the first time since 2016 after Unit 2 was brought back to service. In addition, our recent acquisition of a portfolio of natural gas fired plants in Ontario led to higher electricity generation and higher revenue.

Overall, for the six months ended June 30, our net income attributable to the Shareholder has tracked positively, up $203 million compared to 2019, primarily for the same reason.

Looking at our segment performance, earnings from most of our segments increased this past quarter and for the first six months of 2020 compared to the same period last year. In particular, our earnings from the regulated nuclear segment increased by $116 million this quarter due to higher generation from our nuclear fleet and changes of the regulated price approved by the Ontario Energy Board in 2018. The change in the regulated price includes recovery of Darlington refurbishment costs.

Returns from our hydroelectric assets also increased due to lower OM&A expenses from the temporary deferral of certain activities during the height of the COVID-19 pandemic in the second quarter and higher base regulated price for these facilities. We also saw positive returns from our new contracted gas generation segment in Ontario due to the acquisition of the remaining 50 percent interest in the Brighton Beach Station in August 2019 and the portfolio of the three natural gas fired plants we acquired this past April.

With respect to the performance of our Nuclear Segregated Funds, which are reported as part of a separate segment, we saw higher earnings in the second quarter of 2020 compared to the same period in 2019, due to improvement in financial market conditions since the weakening in the first quarter. For the six months period, the earnings were largely comparable.

As previously mentioned, electricity production from our regulated nuclear side saw an increase over the prior year's period of 0.3 terawatt hours this past quarter and 1.6 terawatt hours for the six months ended June 30. On the regulated hydroelectric side, production decreased mainly as a result of lower electricity demand in Ontario and our modified approach to water management at stations in Eastern Ontario during the height of COVID-19 that produced the need for field work activities and also provided increased flexibility to the grid. This was partially offset by higher water flows in some parts of the province.

Meanwhile, production at our contracted hydroelectric and other generation segment was boosted by the acquisition of U.S.-based hydroelectric facilities in the third quarter of 2019. We also recorded in the first quarter electricity production from our fleet of four natural gas fired plants in the contracted gas generation segment, which included the portfolio we acquired in April.

Our enterprise total generating cost, or TGC, is the cost to generate one megawatt hour of electricity in Ontario. This past quarter, and for the first six months of the year, OPG's TGC decreased compared to the same periods in 2019. This was mainly due to higher generation from our Ontario-based generating stations. Over the six month span, our TGC also decreased due to lower OM&A expenses at our nuclear facilities. Our newly acquired gas fired fleet is included in the TGC measure but did not have a significant impact on its results.

We believe climate change is here and its consequences are already affecting the lives of Ontarians. OPG has already delivered the world's single largest climate change action to date by closing our coal stations. Now, with the Darlington refurbishment, the expansion of our hydro generating assets and through clean power partnerships, such as the Gull Bay micro grid and the Nanticoke solar facility, we are a clean energy leader. We are setting our sights to be North America's leading climate change company by advancing clean energy technologies and solutions while driving economic growth and prosperity for Ontario and beyond.

This includes being the catalyst for efficient economy-wide decarbonization and nurturing new industries and careers for Ontarians. As part of this effort, we are leading the development of new clean energy technologies, such as small modular reactors. As Ken mentioned, we recently formed a joint venture to explore SMRs as a source of safe, carbon-free power in the future. We are also launching the Centre for Canadian Nuclear Sustainability and continuing to develop innovative energy services, such as our medical isotopes program and the Ivy charging network to support electric vehicles.

Acquisitions are also an integral component of our strategy. We've recently completed approximately $5 billion of strategic acquisition that will help ensure future reliable electricity and diversify our portfolio, leveraging our core competency in power generation. The majority of these assets acquired are currently under contract and will help secure future operating cash flow as we continue to invest in our business.

In line with our goal of leading climate change mitigation, we also issued $1.2 billion in green bonds under the Company's medium term note program, which can be used to finance or refinance eligible projects. The issuance makes OPG the largest corporate green bond issuer in Canada.

All of these efforts will help maintain OPG's leadership role and helping to decarbonize the economy, positioning it to be prosperous in a zero carbon future.

Looking for more closely at our approach to becoming a clean energy leader, we recently made a number of key acquisitions to help grow our business and drive economic growth for the province. As mentioned, we have completed approximately $5 billion of strategic acquisitions since December of 2018. These include the acquisition of 85 U.S.-based hydro stations through our subsidiary Eagle Creek Renewable Energy and the acquisition of a portfolio of natural gas plants in Ontario operated through our subsidiary Atura Power. These acquisitions have added more than 2,450 megawatts of in-service generating capacity to OPG's fleet while providing long-term value for Ontarians and generating reliable, cost-effective power for decades to come. Very importantly, these facilities will help support electrification across North America and support our goal to be a clean energy leader.

We are focused on continuing to integrate these new assets into the Company and ensuring we get reliable, efficient performance over their life.

As one of the largest clean energy projects underway in Canada, the Darlington refurbishment will extend the operating life of the Darlington Station by at least 30 years. On June 4, we safely and successfully completed the remaining refurbishment activities on Unit 2, the first Darlington unit to undergo refurbishment and brought the unit back to service in line with our high-quality standards. The reactor is now providing 878 megawatts of baseload generation to the province and represents a $4.8 billion addition to our regulated asset base. This is a significant milestone in our path towards refurbishing all four units of the station so that they can continue to provide cost-effective, reliable and clean energy for Ontario into the 2050s.

From June 4 to July 30, 2020, all four Darlington units were generating electricity to the grid for the first time since 2016. On July 30, Unit 3 was taken offline for a planned outage immediately following which we will begin refurbishment execution activities with de-fuelling of the unit by September 2020. Unit 3 is scheduled to return to service in 2024. The overall four-unit Darlington refurbishment project is scheduled for completion by the end of 2026.

As Ken mentioned earlier, OPG continues to assess and seek ways to manage the ultimate impact of the COVID-19 pandemic on the total cost of the project, which is otherwise tracking to its $12.8 billion budget.

On the Little Long Dam Safety Project, we continued the execution phase with the procurement of critical materials and construction design and engineering activities in the second quarter. This project will improve dam safety along the Lower Mattagami River in Northern Ontario by increasing the discharge capacity and making other reliability and operational improvements to help comply with updated provincial requirements. Project site work resumed in June after a temporary suspension in response to COVID-19. The project is expected to be placed in service in 2023 and within its budget of $650 million.

At one of our flagship hydro stations in Niagara Falls, we are working to replace two nearly century old generating units. The old G1 and G2 units at the Sir Adam Beck 1 Station used the outdated 25 hertz line frequency technology prior to being decommissioned in 2009. The two new, modern, more efficient units going into the station will add about 125 megawatts of incremental generating capacity and provide many more decades of cost-effective clean power. Project site work resumed in June after a temporary suspension due to COVID-19. The project's expected in-service date is in 2022 with a total budget of $128 million.

In the second quarter, we initiated the execution phase of the redevelopment of our Calabogie Hydroelectric site. The project will replace the original 5 megawatt powerhouse with a higher capacity powerhouse that will make more efficient use of the water from the Madawaska River. The new facility in Eastern Ontario will double the original capacity to approximately 11 megawatts and the project is expected to be in service in 2022 with an approved budget of $137 million.

And in Campbellford, commissioning work continues on a new 10 megawatt single unit powerhouse at our Ranney Falls Hydro Station as part of the regulated fleet. The new unit replaces an existing unit that reached its end of life in 2014 and doubles the station's total capacity from 10 megawatts to 20 megawatts. Due to previously identified equipment component issues and the impact of COVID-19, the new expected in-service date for this project is the third quarter of 2020. The project remains on budget.

Looking at our overall corporate profile, OPG continues to grow its asset base and maintain a strong balance sheet, backed by about $60 billion of assets. Revenue and cash flow from operations remain stable and growing. We also continue to demonstrate strong creditworthiness with long-term credit ratings from S&P Global at BBB+, DBRS at A-low and Moody's at A3, all with a stable outlook. Most recently, S&P Global's rating was confirmed in July 2020 and DBRS in April 2020.

OPG's results are supported by stable operations through our regulated nuclear and hydroelectric fleet and supplemented through long-term contracts for much of our non-regulated facilities. OPG continues to monitor our credit rating profile and metrics and intends to maintain a strong investment grade credit rating going forward.

In terms of our capital structure, the Company continues to leverage its diversified financing base through a mix of public debt and funding from the Ontario Electricity Financial Corporation. We are also well positioned in terms of liquidity with a long maturity timeframe on its debt. Recent acquisitions of natural gas facilities were financed through a combination of long-term debt in the debt capital markets and short-term sources. We believe all of our recent investments and acquisitions will ultimately benefit the people of Ontario, as our ultimate owners, providing great value for decades to come.

And now I'd like to turn it back to Ken to talk about the Company's outlook for the rest of the year and to close out the presentation.

Ken Hartwick, President and Chief Executive Officer

Thanks, John.

As a Company, OPG continues to demonstrate strength and resilience, especially in the face of the new challenges posed by the COVID-19 pandemic.

In our regulated business net income is expected to benefit from year-over-year higher approved regulatory rates and from higher than planned nuclear generation as a result of temporarily deferring Unit 3 coming offline for refurbishment, as John has discussed. In line with these changes to the refurbishment schedule, we also are planning to defer a cyclical outage at Darlington's Unit 1 in the fall of 2020 to early in the following year, which will also contribute to higher than planned generation, as well as lower OM&A expenses for the year. We will continue to be partly offset by a higher number of planned outage days at Pickering Station, cyclical outage schedule in 2020 compared to 2019.

In our regulated hydro and contracted hydro and other generation segments, we continue to achieve overall stable earnings. As such, for the rest of the year, subject to any unexpected COVID-19 impacts, we expect to see a comparable level of earnings from these operations since 2019 levels, partially offset by lower than expected earnings from the U.S. hydro facilities due to weaker wholesale electricity market prices currently being experienced in those markets.

Finally, we expect the acquisition of our new natural gas fired assets will result in additional net income for this year.

Based on the above, we expect to continue to generate a strong level of operating cash flow during the remainder of the year, which, in combination with our other existing funding, will continue to fully support our capital expenditure program and other financing and liquidity requirements.

Overall, I'm pleased with the progress we have made to date, especially given the circumstances. We are executing our core strengths to produce clean, cost-effective, reliable power for Ontario. We have demonstrated exceptional project execution with the successful refurbishment of Darlington's Unit 2. In addition, we have further strengthened our Company through several strategic acquisitions and investments in innovative clean energy initiatives.

We are now in a position to competently help lead Ontario's economic recovery in the months ahead, particularly with the restart of many of our key projects and into the long term through our clean energy developments. In addition, this morning, the Province announced support for OPG's plan to sequence the shutdown of the Pickering Nuclear Generation Station by the end of 2025, pending regulatory approval from the Canadian Nuclear Safety Commission, CNSC. The CNSC employs a rigorous and transparent process including public hearings for decision-making on license of major nuclear facilities. Our operating plans include a further optimized shutdown sequence that would see this important asset end commercial operations in a safe and economic manner that fully benefits people of Ontario.

Thank you, and I will now turn this back to Jackie.

Jackie DeSouza, Director of Corporate Communications

Thank you, 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, and 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. 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 participants register. We thank you for your patience.

The first question is from Joe Dhillon from Connor Clark & Lunn. Please go ahead.

Joe Dhillon, Connor Clark & Lunn

Hey, good morning. Thanks for taking my question. Can you just provide an update on how you're thinking about M&A opportunities today, what does the pipeline look like and do you plan to be active over the next 12 months?

John Mauti, Chief Financial Officer and Senior Vice President of Finance

This is John Mauti here. I'll take that question. As I mentioned, as we've talked about, we've gone through a program of $5 billion worth of acquisitions in the last couple of years. Our focus right now will be to integrate those operations back into the Company. The M&A activity in the world over the last few months as a result of COVID has been impacted. We're always looking at and active in understanding what's going on in the markets, but again our focus will be on reintegration of those existing acquisitions we've done.

Joe Dhillon, Connor Clark & Lunn

Got it. Thanks. I'll turn it back.

Operator

Thank you. Please press star, one at this time if you have a question.

There are no questions registered at this time. Ms. DeSouza, I'll turn the meeting back over to you.

Jackie DeSouza, Director of Corporate Communications

Thank you very much. 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 very much and have a wonderful day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your cooperation.
