ONTARIOPOWER GENERATION

News
from Ontario Power Generation

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OPG REPORTS 2017 FINANCIAL RESULTS

OPG records increase in net income for third consecutive year

[Toronto]: – Ontario Power Generation Inc. (OPG or Company) today reported net income attributable to the Shareholder of $860 million for 2017, compared to $436 million in 2016.

"As stewards of Ontario's publicly-owned generating assets, I am pleased with our strong 2017 financial results, which marks the third year-over-year increase in net income. OPG's major focus remains on the largest clean energy project in Canada, the refurbishment of the Darlington Nuclear Generating Station. This ten-year project will extend the life of this asset and ensure a safe, reliable, and clean source of electricity for another 30 years," said Jeff Lyash, OPG President and CEO. "The refurbishment of Darlington's Unit 2 recently passed the halfway point based on work performed, and remains on time and on budget due to the hard work and dedication of our employees and partners. This success was recognized by our shareholder, the Province of Ontario, who has confirmed its commitment to proceed with Darlington's Unit 3 refurbishment."

Lyash continued, "The Pickering Nuclear Generating Station has significantly improved its operating performance over last year, by increasing its capability factor to 80 per cent in 2017. By continuing to operate this important asset to 2024, we will ensure a safe and clean source of reliable power during the refurbishment of Darlington. OPG has applied to its regulator, the Canadian Nuclear Safety Commission, for a licence to keep Pickering online until 2024, and we expect a decision on this application in 2018."

"We are also continuing to invest in our hydroelectric generating fleet. The Peter Sutherland Sr. Hydroelectric Generating Station was completed in 2017, on budget and ahead of schedule, and is the latest example of OPG's commitment to working closely in partnership with Indigenous communities," added Lyash.

The Ontario Energy Board's (OEB) decision on OPG's application for new regulated prices for the 2017-2021 period was issued in December 2017. The regulated prices apply to all of OPG's nuclear and most of its hydroelectric generation. The decision determined that new prices would be applied with an effective date of June 1, 2017. In January 2018, OPG submitted a draft payment amounts order to the OEB that implemented the decision's findings into the final proposed regulated prices. OPG recognized the impact of the OEB's decision in the fourth quarter of 2017, which resulted in net revenue of approximately $480 million related to the June 1, 2017 to December 31, 2017 period. This increase in revenue was partially offset by the year-over-year reduction in nuclear electricity generation, primarily due to the Darlington Refurbishment, the impact of which was not reflected in the regulated prices that continued to be in effect prior to the June 1, 2017 effective date of the new prices.

The OEB is expected to issue the final payment amounts order in the first half of 2018, at which time OPG will begin to collect revenues based on new regulated prices. The OEB's approval of the final payment amounts order is not expected to have a material impact on the amount of net revenue recorded in the fourth quarter of 2017 to reflect the impact of the OEB's decision. Taking into account the impact of the OEB's decision, OPG continues to provide electricity at a price that is 40 per cent less than the average of other generators. OPG is the only electricity generator in Ontario that has its prices set through a public hearing process by the OEB.

The after-tax gain of $283 million on the sale of OPG's head office building and parking facility recorded in the second quarter of 2017 contributed to the year-over-year increase in net income. Higher earnings from the Regulated – Nuclear Waste Management segment were also recognized in 2017, primarily due to higher earnings on the nuclear fixed asset removal and nuclear waste management segregated funds.

OPG has been appointed the Financial Services Manager under the *Ontario Fair Hydro Plan Act*, *2017* (the Act) and, in December 2017, established the Fair Hydro Trust (the Trust) as the financing entity contemplated by the Act. The Act established a framework under which the costs and benefits associated with the Government of Ontario's clean energy initiatives are to be allocated between present and future consumers of electricity under the Fair Hydro Plan. In December 2017, the Trust purchased its first tranche of financing receivable assets from the Independent Electricity System Operator in the amount of approximately $1.2 billion. In February 2018, the Trust issued $500 million of senior notes payable maturing in 2033.

Generating and Operating Performance

Electricity generated in 2017 decreased to 74.1 terawatt hours (TWh) from 78.2 TWh in 2016. The decrease in electricity generation reflected the expected lower generation from the Darlington GS and lower generation from the contracted plants. The decrease was partially offset by higher generation from the Pickering GS, primarily due to fewer outage days, and higher generation from the regulated hydroelectric stations.

Regulated – Nuclear Generation Segment

Lower nuclear generation of 4.9 TWh during 2017 was primarily due to the removal from service of Unit 2 at the Darlington GS for the duration of the unit's refurbishment that began in October 2016 and is expected to continue until early 2020. Partly offsetting the reduction in generation from the Darlington GS was an increase in generation of 1.5 TWh from the strong performance of the Pickering GS during 2017.

For 2017, the unit capability factor for the operating units at the Darlington GS was 85.2 per cent, compared to 89.5 per cent for 2016. The decrease was primarily a result of a higher number of planned outage days at the station in 2017, largely driven by the planned transition of the station towards refurbishment.

At the Pickering GS, the unit capability factor increased to 80.0 per cent for 2017, compared to 75.2 per cent for 2016, primarily due to outage cycle optimization and execution of planned outage work resulting in a lower number of unplanned and planned outage days at the station in 2017.

Regulated – Hydroelectric Segment

Higher generation from the regulated hydroelectric stations of 1.2 TWh during 2017 compared to 2016 was due to higher water flows, primarily on the eastern Ontario river systems.

The availability of 88.0 per cent at these stations in 2017 was slightly lower than 89.0 per cent for 2016. The decrease in the availability was primarily due to a higher number of unplanned outage days at the Northwestern Ontario and Niagara regions' hydroelectric stations, partially offset by a higher number of planned outage days in 2016 as a result of refurbishing the Sir Adam Beck Pump GS reservoir between April 2016 and February 2017.

Contracted Generation Portfolio Segment

Lower generation from the Contracted Generation Portfolio of 0.4 TWh during 2017, compared to 2016, was mainly due to higher surplus baseload generation conditions.

The availability of these hydroelectric stations for 2017 was 74.6 per cent, compared to 77.3 per cent for 2016. The decrease in the availability was primarily due to an increase in the number of planned outage days at the Lower Mattagami River hydroelectric generating stations.

Total Generating Cost

The Enterprise Total Generating Cost per megawatt hour (MWh) for 2017 was $50.66, compared to $48.45 for 2016. The increase was expected and mainly a result of lower electricity generation due to the Unit 2 refurbishment outage at the Darlington GS and higher sustaining capital expenditures, which were partially offset by higher hydroelectric electricity generation adjusted for surplus baseload generation.

If Unit 2 at the Darlington GS was not currently undergoing refurbishment and had continued to operate in a manner consistent with the performance of the remaining units at the station, adjusted for generation constraints on these units related to the transition of the station toward refurbishment, the Enterprise Total Generating Cost would have been approximately $4 to $5 per MWh lower for 2017. This sensitivity was calculated using the estimated incremental electricity generation and associated fuel cost that are expected to have resulted in the absence of the refurbishment.

Generation Development

OPG is undertaking a number of generation development and life extension projects in support of Ontario's electricity planning initiatives. Significant developments during 2017 were as follows:

Darlington Refurbishment

The Darlington Refurbishment project is expected to extend the operating life of the four-unit Darlington GS by approximately 30 years. The approved budget for the four-unit refurbishment is $12.8 billion, which includes the costs of the pre-requisite projects in support of the execution phase of the refurbishment. In October 2016, OPG commenced the refurbishment of the first unit, Unit 2. The de-fuelling of the reactor and islanding of Unit 2 were completed in the first half of 2017. The Re-tube Tooling Platform for hosting the tooling for the removal, inspection and installation activities, and the setup of specialized tooling and equipment needed for the removal and replacement of the reactor components were completed in the third quarter of 2017. The disassembly of reactor components began in August 2017, with the removal of all 960 feeder tubes completed in September 2017. The removal of fuel channel assemblies is in progress. The removal of all reactor components is expected to be completed in mid-2018.

Most of the pre-requisite projects, including construction of facilities, infrastructure upgrades and installation of safety enhancements, have been completed and placed in service. The Re-tube Waste Processing Building was completed in November 2017. Construction to complete the Heavy Water Storage and Drum Handling Facility (HWSF) recommenced in the fourth quarter of 2017. The HWSF is expected to be completed by the second quarter of 2019 and is not on the critical path for the Darlington Refurbishment project, which continues to track on schedule. Taking into account the execution performance of the Unit 2 refurbishment and the cost to complete the HWSF, the overall Darlington Refurbishment project continues to track to the $12.8 billion budget.

In addition to the execution of refurbishment activities on Unit 2, OPG is continuing planning activities for the refurbishment of the second unit, Unit 3, and is entering into associated commitments to procure major components that require long lead times. As of December 31, 2017, $93 million has been invested in planning activities related to the refurbishment of the second unit. In February 2018, the Government of Ontario confirmed its commitment to proceed with the refurbishment of Unit 3.

Total life-to-date capital expenditures on the project were approximately $4.4 billion as at December 31, 2017.

Ranney Falls Hydroelectric GS

In 2017, OPG began construction work on a 10 MW single-unit powerhouse on the existing Ranney Falls GS site. The new unit will replace an existing unit that reached its end of life in 2014. The existing forebay structure has been demolished and the new concrete structure has been completed. Excavation has been completed and construction continues in the expanded forebay, powerhouse and spillway area. The new forebay concrete wall has been completed, and concrete placement of the new powerhouse and the spillway integrated structure is in progress. The project's expected in-service date is in the fourth quarter of 2019, with a budget of $77 million. The project is tracking on schedule and on budget. The Ranney Falls GS is included in the Regulated – Hydroelectric segment.

Nanticoke Solar Facility

The construction of a 44 MW solar facility at OPG's Nanticoke GS site and adjacent lands, through Nanticoke Solar LP, a partnership between OPG and a subsidiary of the Six Nations of Grand River Development Corporation, will commence with site preparation work in March 2018. During 2017, the partnership continued work to obtain approvals and permits required to enable the commencement of construction. Significant contracts for equipment and engineering construction services were executed in the first quarter of 2018. The facility will operate under a contract with the IESO and is expected to be completed in the first quarter of 2019, with a budget of $107 million.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(millions of dollars – except where noted)	**2017**	**2016**
Revenue	**5,158**	5,653
Fuel expense	**689**	727
Gross margin	**4,469**	4,926
Operations, maintenance and administration	**2,824**	2,747
Depreciation and amortization	**679**	1,257
Accretion on fixed asset removal and nuclear waste management liabilities	**960**	929
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(801)**	(746)
Earnings from Fair Hydro Trust	**(1)**	-
Income from investments subject to significant influence	**(38)**	(37)
Other net (gains) expenses	**(339)**	35
Income before interest and income taxes	**1,185**	741
Net interest expense	**95**	120
Income tax expense	**209**	168
Net income	**881**	453
Net income attributable to the Shareholder	**860**	436
Net income attributable to non-controlling interest [1]	**21**	17
Income before interest and income taxes		
Electricity generation business segments	**971**	928
Regulated – Nuclear Waste Management	**(150)**	(174)
Services, Trading, and Other Non-Generation	**364**	(13)
Fair Hydro Trust	**-**	-
Total income before interest and income taxes	**1,185**	741
Cash flow		
Cash flow provided by operating activities	**944**	1,817
Electricity generation (TWh)		
Regulated – Nuclear Generation	**40.7**	45.6
Regulated – Hydroelectric	**30.7**	29.5
Contracted Generation Portfolio [2]	**2.7**	3.1
Total electricity generation	**74.1**	78.2
Nuclear unit capability factor (per cent) [3]		
Darlington Nuclear GS	**85.2**	89.5
Pickering Nuclear GS	**80.0**	75.2
Availability (per cent)		
Regulated – Hydroelectric	**88.0**	89.0
Contracted Generation Portfolio – hydroelectric stations	**74.6**	77.3
Equivalent forced outage rate		
Contracted Generation Portfolio – thermal stations	**2.4**	1.6
Enterprise Total Generating Cost (TGC) per MWh for the twelve months ended December 31, 2017 and 2016 ($/MWh) [4]	**50.66**	48.45
Return on Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI) for the twelve months ended December 31, 2017 and 2016 (%) [4]	**7.6**	4.2
Funds from Operations (FFO) Adjusted Interest Coverage for the twelve months ended December 31, 2017 and 2016 (times) [4]	**3.3**	5.1

[1] Relates to the 25 per cent interest of the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation in the Lower Mattagami Limited Partnership, the 33 per cent interest of Coral Rapids Power Corporation (CRP), a corporation wholly owned by the Taykwa Tagamou Nation, in the PSS Generating Station Limited Partnership, and the 10 per cent interest of a corporation wholly owned by the Six Nations of Grand River Development Corporation in the Nanticoke Solar LP. CRP increased its partnership interest in PSS to 33 per cent in April 2017.

[2] Includes OPG's share of generation volume from its 50 per cent ownership interests in the Portlands Energy Centre and Brighton Beach GS.

[3] Nuclear unit capability factor excludes unit(s) during the period in which they are undergoing refurbishment. Unit 2 of the Darlington GS is excluded from the measure effective October 15, 2016, when the unit was taken offline for refurbishment.

[4] Enterprise TGC per MWh, ROE Excluding AOCI, and FFO Adjusted Interest Coverage are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about the non-GAAP measures is provided in OPG's Management's Discussion and Analysis for the year ended December 31, 2017, in the sections *Highlights – FFO Adjusted Interest Coverage*, *Highlights – Return on Equity Excluding Accumulated Other Comprehensive Income*, and *Highlights – Enterprise Total Generating Cost per MWh*, as well as *Supplementary Non-GAAP Financial Measures.*

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Our mission is providing low cost power in a safe, clean, reliable and sustainable manner for the benefit of our customers and shareholder.

Ontario Power Generation Inc.'s audited consolidated financial statements and Management's Discussion and Analysis as at and for the year ended December 31, 2017 can be accessed on OPG's web site (www.opg.com), the Canadian Securities Administrators' web site (www.sedar.com), or can be requested from the Company.

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