FW: FAO Information Request FA1710-01

From:	"Pearce, Christopher (MOF)" <christopher.pearce@ontario.ca>
To:	"Nguyen, Marianne (MOF)" <marianne.nguyen@ontario.ca>
Date:	Fri, 24 Mar 2017 14:56:35 -0400
Attachments:	FA1710-01 - Question 6 - Att 1 - GA Financing Summary Sheet.xlsx (20.46 kB); FA1710-01 - Question 6 - Cover Spreadsheet.xlsx (30.52 kB); FA1710-01 Cover Letter.pdf (162.45 kB)

Hey Marianne – flagging this as FYI.
We're in the process of assessing whether this response will go out under just Energy or MOF as well. Its due today to the FAO unfortunately.

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: March 24, 2017 1:46 PM
To: Pearce, Christopher (MOF)
Subject: FW: FAO Information Request FA1710-01

Hi Chris,

An FYI.

Have not received any comments on this yet. Does the DMO review these before they go out, as it's under both DM's signature? Would the DM want a briefing on this (or has OB already arranged one)?

Ron

From: Ronald Kwan
Sent: March-24-17 11:34
To: Steen Hume (CAB) <Steen.Hume@ontario.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>; Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Subject: RE: FAO Information Request FA1710-01

Hi Steen,

See attached. We have not had OB staff review this version, so if you and OB staff can review the material in parallel to see if it fits the appropriate way to respond on filling in the cover sheet file and the info in the spreadsheet and get back to us, that would be great. Gadi's comments are welcome too, of course.

Thanks,
Ron

From: Hume, Steen (ENERGY) [mailto:Steen.Hume@ontario.ca]
Sent: March-23-17 5:34 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>; Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Subject: RE: FAO Information Request FA1710-01

Hi Ron: works for me. Consistent with how we've done it.

Are you going to have that done for tonight or first thing tomorrow morning?

Steen

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: March-23-17 5:24 PM
To: Hume, Steen (ENERGY)
Cc: Schuurman, Tim (MOF); Mayman, Gadi (OFA); Tiburcio, Daniel (MOF); Cox, Hilary (ENERGY)
Subject: RE: FAO Information Request FA1710-01

Hi Steen,

I understand staff here had a conversation with OB staff, and the recommendation is to not send the information in a slide format but in a spreadsheet, so staff will be doing up a workbook/spreadsheet instead.

Ron

From: Hume, Steen (ENERGY) [mailto:Steen.Hume@ontario.ca]
Sent: March-23-17 12:36
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>; Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Subject: RE: FAO Information Request FA1710-01

Hi. That helpful clarification Ron.

So have your folks anonymise the deck?

Thanks,

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: March-23-17 12:23 PM
To: Hume, Steen (ENERGY)
Cc: Schuurman, Tim (MOF); Mayman, Gadi (OFA); Tiburcio, Daniel (MOF); Cox, Hilary (ENERGY)
Subject: RE: FAO Information Request FA1710-01

Hi Steen,

That's right, not the entire deck. The deck was sent to you because you requested it for background.

As I understand it, the process would be to anonymise the deck so it would not be material that would actually be protected under s.12.

Ron

From: Hume, Steen (ENERGY) [mailto:Steen.Hume@ontario.ca]
Sent: March-23-17 11:40
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>; Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Subject: RE: FAO Information Request FA1710-01

Hi Ron. Sorry, hit "sent" too soon.

What is the specific information that you want to provide to the FAO with respect to request. We're finalizing the information package.

Didn't think you wanted to send the entire deck. Correct?

Thanks,

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: March-20-17 2:33 PM
To: Hume, Steen (ENERGY)
Cc: Schuurman, Tim (MOF); Mayman, Gadi (OFA); Tiburcio, Daniel (MOF)
Subject: RE: FAO Information Request FA1710-01

Hi Steen,

As requested, attached is the deck on interest rate sensitivity that we had done. (Resaved with Energy's PW used for the final materials.)

I'd note that this was used for internal MOF briefing only. Please do not circulate further.

I'd note that our analysis was a refinement from the Energy analysis. Energy said in its CabSub that it was using a 5% interest rate, compounded monthly, but the actual calculations were done using a proxy annual 5.12%, with interest costs shown to occur in the following year. That means that the table provided by Energy on its base case for the final Energy deck had zero in-year interest costs in 2017, and interest cost in each year calculated based on the beginning of the year debt balance only, not in-year financing costs for the in-year deferral amounts.

To calculate the interest costs in 2017, staff took the annual GA deferral amounts provided by Energy and calculated in-year interest costs assuming an even monthly GA deferral amounts (a simplification) to generate a table with interest costs starting in 2017. However, that changed the annual and accumulated debt amounts a bit from what Energy had estimated.

That said, in both the revised estimates that we had done and the Energy case, on a rounded basis, the cumulative interest cost is $25 bn, with an annual peak of $1.4 bn in the 5% interest rate scenario. The peak cumulative debt rounds in both cases to $28 bn, but is a little lower in Energy's table, and a little higher in the detailed modelling with interest compounding monthly.

Also included are some interest rate sensitivities that staff here had done, which shows significant impacts on the cumulative interest costs.

As implementation in the summer was also discussed, a << File: GA Financing - Interest Cost Scenarios - Mar 1 Deck v6_Energy-PW.pdf >> s such, staff also did some sensitivity modelling on a July 1, 2017, implementation date, effectively assuming only half the estimated deferral amount in 2017. The impact on estimated life-cycle cumulative interest costs is significant.

I'd note too that we followed Energy's modelling that had interest costs in the proposed plan as deferred and capitalised; however, we understand that OPG's proposal would have the interest paid – which would mean more GA would have to be deferred to get the same rate impact. OPG's proposal would result in more GA deferred over time, but less cumulative interest costs.

Hope that helps. Happy to discuss, or have staff meet and discuss.

Ron
