FW: Call with OPG

From: Ken Kandeepan <ken.kandeepan@ofina.on.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Cc: "Kwan, Ronald (OFA)" <ronald.kwan@ofina.on.ca>, "Mayman, Gadi (OFA)" <gadi.mayman@ofina.on.ca>, "Wynberg, Lynsey (OFA)" <lynsey.wynberg@ofina.on.ca>
Date: Wed, 15 Feb 2017 20:06:08 -0500

Hi Cindy

Pls see a nuanced analysis from Gadi to Scott based on my summary, including the possibility of a provincial guarantee.

As you may have seen from my subsequent separate email exchange with John Lee, he seems to believe that the OPG can show a net interest income in its books thus, all else being equal, makes the province whole from a fiscal perspective. I am not entirely sure given the Trust will be consolidated with OPG and I am not sure the latter can show interest income from the Trust.

In any event I have requested him to flesh out that possibility. For now until proven otherwise I am taking the conservative approach and assuming that an equity injection has a very real fiscal impact to the Province.

Thanks

Ken k

From: Gadi Mayman
Sent: Wednesday, February 15, 2017 6:59 PM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Scott Nelms (ENERGY) <Scott.Nelms@ontario.ca>; Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>
Subject: Fw: Call with OPG

Hi Scott. In the roller coaster ride with whether the OPG solution for the GA works, we've just hit a pretty big bump, as you'll see from Ken's email below. I suggest that you scroll down and read that before carrying on with my email, as what I'm going to write next may be hard to follow without the context of Ken's email.

If we inject equity in the quantity OPG Is suggesting, it should make it easier for them to borrow externally, although they'd have to sound out the market and find out whether they can, and, more importantly, at what additional cost relative to the Province's funding cost. It may require a provincial guarantee, which we used to give to the old Ontario Hydro, but I don't know whether that also is something that would affect their GBE status.

Possibly of more significance is that IOD would rise substantially. If we make an equity contribution of half of the total amount they need for the GA, we'd have to borrow money without any offsetting earnings. It would start off in manageable amounts in the early years, but as the equity stake grows, the amount of interest does as well. In the scenario that Ron showed you this afternoon where interest made up up $30 billion of the total cost, about $15 billion in IOD would be added over the life of the option, if debt and equity are repaid at an equal pace to each other in the out years. Of course, if we discard this option and put this on the fiscal plan, IOD also goes up, but it would eliminate the need for OPG to borrow at a higher cost than the Province's borrowing cost.

OPG apparently indicated on the call that they could increase their dividend to offset some of the cash that we're providing, which, on the surface would reduce our borrowing requirements and thus lessen IOD, but OPG would need to find the cash from somewhere else, so their interest costs would go up, reducing their earnings and hitting the fiscal plan that way. Since our cost of borrowing is lower than theirs, I'm not sure having them send us money makes fiscal sense. And, of course, hanging over this whole discussion is that OPG needs over $10 billion over the coming years to finance the Darlington refurbishment.

Happy to discuss further at your convenience.

Gadi

From: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Sent: Wednesday, February 15, 2017 6:09 PM
To: Gadi Mayman
Cc: Lynsey Wynberg; 'Veinot, Cindy (TBS)'; Ronald Kwan
Subject: FW: Call with OPG

Hi Gadi

As discussed pls find a quick summary of our call with OPG. I understand that you will be passing this on to Scott. Cindy, you may wish to so to Helen as well.

As requested by OPG, Cindy and I just finished a conference call with them. OPG is of the opinion that OEFC lending the full amount to either OPG or the Trust will seriously jeopardize the OPG's GBE status.

In order to maintain the status they propose;

That funding from the Province be limited to 49% of the amount required by the Trust and be in the form of an equity injection from the Province. An equity injunction means that the Province's net debt is not impacted since the increase in total debt is offset by an equivalent increase in the investment in OPG.

OPG also asserted that the balance 51% has to be from an outside lender in order to preserve OPG's GBE status.

Another reason for OPG also preferring the equity option instead of the Province lending the 49% is that they believe incorporating so much debt in their balance sheet with no offsetting income to service the debt will jeopardize their credit rating and impact OPG's "going concern" concept.

From the Province's perspective there will be a material impact to IOD.

John Lee indicates that OPG can in fact increase dividends to offset the cash impact of the increased IOD, but that doesn't help from a fiscal perspective. Unless OPG's net income increases and I am not sure that is possible since setting up the Trust does not contribute to net income, IOD and consequently the fiscal plan will be impacted fairly substantially as the equity injection ramps up.

I indicated to John that I will run this by you and get back to him tomorrow, but given the possible fiscal impact, not sure how doable this is.

Thanks

Ken k
