FW: FHP - OPG Performance Fee

From:	"Nelms, Scott (MOF)" <scott.nelms@ontario.ca>
To:	"Kandeepan, Ken (OFA)" <ken.kandeepan@ofina.on.ca>, "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>, "Kim, John (OFA)" <john.kim@ofina.on.ca>, "Yep, Carlos (OFA)" <carlos.yep@ofina.on.ca>, "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
Date:	Wed, 05 Jul 2017 16:35:49 -0400
Attachments:	RE_ BN FSM Fees 29 June 2017.docx.msg (63.49 kB)

Fee note as discussed. The note focuses on OEB role, but perhaps we should revisit the quantum of the fee. Let me know if you have comments.

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From: Calwell, Carolyn (ENERGY/MEDEI/MRI) <Carolyn.Calwell@ontario.ca>
Date: Wednesday, Jul 05, 2017, 1:20 PM
To: Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>, McKinlay, Tom (ENERGY) <Tom.McKinlay@ontario.ca>
Cc: Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: RE: FHP - OPG Performance Fee

I think we are aligned. Does OFA have some suggestions about how to structure the fee? Feel free to float the “option 2” from the note and see if they have suggestions about how to make it better. I haven’t yet sent that note up, as I am trying to work in some research that Jackson did (attached for your reference).

From: Nelms, Scott (MOF)
Sent: July-05-17 12:15 PM
To: Calwell, Carolyn (ENERGY/MEDEI/MRI); McKinlay, Tom (ENERGY)
Cc: Montgomery, Kaitlin (MOF)
Subject: FW: FHP - OPG Performance Fee

Fyi – more complications on the fee issue.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: July 5, 2017 11:59 AM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Yep, Carlos (OFA); Monroe, Graham (OFA); Manning, Mike (OFA); Devine, James (OFA); Veinot, Cindy (TBS)
Subject: FHP - OPG Performance Fee

Hi Scott

I am writing this to you as an FYI since there may be some push back from OPG. I am cc’ing Cindy as well given the accounting implications raised by OPG. As you may be aware, OPG provided us with the proposed methodology for computing the performance fee. Both the benchmark and the actual include the 44% debt issued by OPG to the Trust which is in turn fully funded by the Province’s equity injection.

Given that there are no capital market decision-making associated with this component of the debt, we are reluctant to sign off on OPG’s methodology in its current form. OPG is not particularly happy with our response and posits that the accounting treatment requires a performance fee. While I agree that the E&Y opinion does refer to a performance fee I am a little doubtful that E&Y specified that all of the debt should be part of the computation. I have requested that OPG provide me with any specific reference by E&Y on the performance fee methodology. If E&Y does require that the benchmark and actual include the total debt issuance, we can reconsider our stance.

Finally, the performance fee methodology computes the fee for a particular year by applying the difference between the benchmark and the actual on the 5% that is borrowed by OPG. We requested and obtained confirmation that the performance fee will be limited to new borrowings by OPG and not apply to any refinancing. OPG finds this acceptable and it also ensures that the performance fee will be capped at $1.2 million or so per annum.

Thanks

Ken k