

FW: Good question re: the capitalized interest -- you've got me thinking now....

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Hi John

I reviewed OPG's submission and Gadi suggested that I forward my comments to you. Happy to discuss.

Thanks

Ken k

Slides 9 and 16 provide the most amount of details re the basis of the accounting. Slide 16 mentions that OPG's net income and EBITDA will improve providing the required offset to the increase in the Province's IOD from incurring additional debt to fund the 44% equity injection. No details are provided as to how OPG's net income will increase giving rise to the following comments.

- The SPV/Trust is required to pay interest on both the senior debt and the sub debt to respectively the capital markets and OPG. Given that the SPV/Trust has no revenues from implementation to 2029, the only available option is to credit the outstanding liability each year by the annual interest costs instead of paying same. How willing is the market to provide debt funding, even if it is senior debt, when interest payments will only commence in 2030. And if market debt funding is indeed available what is the premium charged to compensate for accumulating the interest instead of making payments.
- Alternatively, the SPV/Trust can use the cash inflow from OPG (the sub debt) to pay interest on the senior debt. That option is not possible mathematically unless the OPG funding exceeds 44% for total SPV/Trust funding of over 100%.
- Assuming all of this works, OPG's net income will in my opinion, be impacted since upon consolidating the Trust, OPG's interest income from the SPV/Trust will be more than offset by the SPV/Trust interest expenses. The SPV/Trust incurs interest on both the senior and the sub debt, OPG's net income will actually reduce by the amount of the interest the Trust incurs on the senior debt unless there are offsetting increases in OPG's revenues. As such I am confused as to how the Province can offset the increase in its IOD from the debt incurred to fund the equity injection. On a cash basis the Province will also be out, unless OPG increases dividends.
- There is also limited opportunity for OPG to generate additional revenues and net income based on the cash flow from the Province's equity injection. The funds will be promptly lent to the SPV/Trust to purchase the regulatory asset from the IESO and hence not be available for use by OPG to generate a return.
- It would be useful if OPG furthers fleshes out the above, including income and cash flow projections for the SPV/Trust

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