FW: Notes for Implementation Working Group

From: "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Thu, 09 Mar 2017 18:22:17 -0500

FYI

From: Petsche, Nadine (TBS)
Sent: March-09-17 6:12 PM
To: Laughton, Patrick (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: Notes for Implementation Working Group

Summary of March 9, 2017 Implementation Group Meeting

In general, it was a good meeting which provided an overview of the various initiatives underway, with most of the discussion focusing on the GA item. The OEB welcomed an opportunity to be more involved to ensure that they understood the direction and expectations. Dialogue was informative and allowed for questions by all parties. It was acknowledged that there would likely be sub-teams working on specific issues over the coming weeks. Highlights of the discussion are provided below, as well as comments on other related matters that the DMO should be aware of:

- Participants included reps from MOE, OEB, OPG, IESO, OPCD, MO and external legal council.
  GA Smoothing:
- Legal council provided an overview of recent US precedents and considerations in relation to structure under consideration for Ontario. In particular, mention was made to bondholder/credit rating agency interest in the value of the asset which would be influenced by the role of the regulator, state pledge/debt guarantees, recoverability of the asset (size and breadth of ratebase), etc. Considerations were acknowledged as influencing both the availability and cost of debt financing.

- The role of the OEB was contemplated as ensuring that the calcs are correct, deferral accounts right, etc which is similar to current role for certain other items. It was acknowledged that the US and ON regulatory environments are different (e.g. ON does not have a Public Authority Control Board that might play the role of a financing regulator for each additional trench or debt)
- John Lee (Treasurer for OPG) also highlighted that the largest similar securitization that has taken place in the US was $6B, and that the term of debt was ~ 20 years whereas we may be looking to stretch to 30 years; cross-currency hedge considerations when borrowing in US $ and 6 month timeframe in US vs. immediate (operational) borrowing being considered for OPG Trust.
- OPG has been engaging with Moody's to assess risks and market impacts. Moody's experience gives them a good starting point in terms of understanding the environment and considerations.
- Other considerations: OPG article will require amendment (outlined in the previously provided whitepaper); IESO and OEB working together to develop the

process; establishing the SPV (no Canadian precedent which is challenging but the interest does exist); amount of debt financing will require consideration of multiple sources: Canada, US, Corporate Paper, etc.

- Question as to whether the Trust would be an operating or financing trust (better positioned as a financing trust –not a lot of management involvement)
- OPG expects to decide on its advisor selection by the end of the week.
- Administrative costs for the Trust are not expected to be significant. Legal fees can be substantial.
- Legislation should also address the ability to pay down the principal.
- No perceived risks to the proposed accounting treatment based on discussions to date.
- OPG's update next week will focus on areas that are progressing.
- IESO update: working on legislation, side agreement and market rule components. Accounting is underway to provide f/s reflecting rate regulated accounting by the end of March. Advised that KPMG, as component auditors have a requirement to file a copy of the audited f/s with the AG by May which will flag the change in accounting treatment.
- Question re: timing of discussion with the OAG. After Budget?
- Legal reiterated the urgency of their efforts and the need for on-demand support from various parties.

<u>Affordability Fund:</u>

- Draft TPA has been shared with H1. Principles developed. Question on who would appoint the trustees whether government could appoint/have representation without impacting control.

Other matters:

- Cindy and I spoke with Dan Shear (MOE Legal) following the meeting to provide additional input on considerations related to potential backstop assurance that might be required in relation to a Eurig challenge. As a result of the call, OPCD sent a request to Scott Nelms to solicit input from OPG on the matter of a provincial guarantee. We also asked Scott to follow up with Energy on a potential briefing to the AG given that there was a planned briefing by MOE to the FAO for today (OPCD was not invited to attend). We are awaiting response to both of these items.

- I continue to support MOE on the Affordability Fund initiatives, specifically through reviewing draft documents related to program principles and the draft TPA. Parties appear to be working collaboratively and effectively, but the greatest challenge appears to be the attempt to apply a standard TPA to a non-controlled trust. There are a number of changes that would need to be made to avoid being assessed as 'controlling' the Trust under PSAB. If required, an exemption to the TPAD (for specific clauses that are drafted to be included in standard agreements) may be required. ***For example, to accomplish an irrevocable, non-controlled trust, the requirement for unused funds to be returned if not spent by March 31/2018 should be excluded***. I have suggested that they consider an alternative recourse measure that would not entail the funds coming back to the Province or any government-controlled entity.

Nadine

From: Laughton, Patrick (TBS)
Sent: March-09-17 9:05 AM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS); Hosick, Sarah (TBS)
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Hi Nadine –

Karen would appreciate a written summary of the meeting this morning, if you could please send along later today I'd appreciate it. This will also be useful to keep the DMO in the loop.

Many thanks,

P.