Interest for the first four years

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Date: Wed, 12 Jul 2017 16:48:32 -0400

Hi John and Cindy

The use of the inflationary increase to pay the interest costs over the first 4 years is a good idea, however, upon further considering it I have the following thoughts which you may have also worked out independently.

First of all my understanding is the 2% inflationary increase will be applied to 100% of the bill and the GA relief will be limited to 17% or so, remember the balance 8% is from the removal of the HST.

So 2% of 100% translates into slightly less 12% of the 17%. This is quite adequate in the first year given potential borrowing costs that are hopefully around 4% or even less. In the second year the debt burden increase to 34% and the inflationary increase reduces to 6%, still enough.

In the third year, the debt increases to 51% and the inflationary increase becomes 4% maybe adequate depending on a combination of the yield curve at that time and the term structure of the debt.

Unfortunately, in the fourth year the debt increases to 68% and the inflationary increase reduces to 3% which may prove inadequate. From the fifth year onwards the CEA kicks in and hopefully provides adequate cover for the interest expense.

This is simply my back of the envelope calculations and hopefully someone in OPG will validate or disprove them, especially if the inflationary increase proposal gains traction.

Thanks
Ken k
