RE: EXTERNAL - Provincial Guarantee

From: Gadi Mayman <gadi.mayman@ofina.on.ca>
To: HARTWICK Ken -FINANCE <ken.hartwick@opg.com>
Cc: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>, MAUTI John -FIN & C CTRL <john.mauti@opg.com>
Date: Mon, 27 Feb 2017 13:01:51 -0500

Thanks, Ken. The challenge that many on our side of the table have, including me, is that given the interest rate sensitivity of this program, we'd like to squeeze whatever excess costs we can out of it, and if we're guaranteeing the debt anyhow, why pay third party investors a premium?

I realize that the guarantee is, for now, only related to legislative changes, but that's the most likely, by far, potential point of failure of this structure, so I'd suggest that the risk transfer to third party investors is pretty limited if we have this guarantee. That being the case, I'm having trouble seeing why direct borrowing on on-lending by the Province would be treated differently from an accounting perspective than this guarantee would be, and am still wondering why we wouldn't be able to do the borrowing on your behalf?

From: HARTWICK Ken -FINANCE [mailto:ken.hartwick@opg.com]
Sent: Monday, February 27, 2017 12:49 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: 'cindy.veinot@ontario.ca' <cindy.veinot@ontario.ca>; MAUTI John -FIN & C CTRL <john.mauti@opg.com>
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We are looking at this now but I do not think we get a different accounting inclusion. The guarantee would not be related to performance of the trust but rather a material legislative change that would allow the trust to collect the GA and fulfil its obligations. We are looking at this now but believe the accounting works with this as one element of a 14 element test and focused on a specific change. We may issue over the paper for 130 and then need to confirm my view.

From: Gadi Mayman [mailto:Gadi.Mayman@ofina.on.ca]
Sent: Monday, February 27, 2017 12:45 PM
To: HARTWICK Ken -FINANCE
Cc: 'cindy.veinot@ontario.ca'
Subject: EXTERNAL – Provincial Guarantee

Hi Ken, we all had to rush off to our next meetings following our meeting this morning, so we didn't get a chance to have a discussion about why a Provincial guarantee of all of OPG's debt related to the trust isn't a problem for the accounting treatment that we'd need to get to in order to make the GA smoothing plan work, while direct borrowing and on-lending from the Province would be, if it's greater than 49% of the total borrowing (actually 44% in your current model).

From a capital markets, investor and rating agency perspective, the guarantee is extremely likely to be lumped in with the rest of the Province's debt, and the guaranteed debt would be considered just as much of a provincial obligation as the rest of our debt, particularly in this case where the reason that the guarantee is needed is because investors will demand it in order to protect themselves from legislative amendments by a future government. For that reason, it could be hard to justify, from a capital markets or cost perspective, having OPG borrowing in its own name with a government guarantee, so is it possible to revisit the potential accounting treatment and determine whether, now that we've effectively moved to a guaranteed structure, we could just have the Province, through the OFA or OEFC, do all of the borrowing and on-lend to OPG? Is this something that you'd been planning to address in the accounting material that you're sending over today?

Thanks,
Gadi
