

RE: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral

From: Ken Kandeepan <ken.kandeepan@ofina.on.ca>
To: LEE John -TREASURY <john.s.lee@opg.com>
Cc: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>, "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>, RYFA Ken -TREASURY <ken.ryfa@opg.com>, CHENG Alec - FIN & C CTRL <alec.cheng@opg.com>
Date: Thu, 16 Feb 2017 09:18:53 -0500

Hi John

Gadi and others spent considerable time last night discussing the equity injection option and we are unclear as to how the Province will be made whole from a fiscal perspective. I suggest that you proceed with fleshing out this option and once we have all the details a decision can be made as to its viability. Naturally, pls include details on the external borrowing for the 51%; will the borrowing be conducted by OPG, the Trust, etc.

Thanks

Ken k

-----Original Message-----

From: LEE John -TREASURY [mailto:john.s.lee@opg.com]
Sent: Thursday, February 16, 2017 8:28 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; RYFA Ken -TREASURY <ken.ryfa@opg.com>; CHENG Alec -FIN & C CTRL <alec.cheng@opg.com>
Subject: RE: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral

Ken:

Have you had any confirmation from Gadi on the approach. As you know time is of the essence, as a result we are proceeding with discussions with the external auditors this morning to brief them on the approach and get their thoughts on the accounting implications and what needs to be done from a structuring perspective to ensure that the varying objectives can be met. Please advise ASAP.

John

-----Original Message-----

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: Wednesday, February 15, 2017 6:37 PM
To: LEE John -TREASURY
Cc: Veinot, Cindy (TBS); Nadine Petsche (MOF); RYFA Ken -TREASURY; CHENG Alec -FIN & C CTRL
Subject: Re: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral

Thanks John, it seems that what you are saying is OPG's net income will increase, all else being equal, by the amount of the interest relating to the equity injection.

In which case upon consolidation there will be no fiscal impact to the Province.

As you work through the options this needs to be fleshed out since the Trust will be consolidated with OPG we need to understand how OPG will show a net interest income.

Thanks

Ken k

> On Feb 15, 2017, at 6:28 PM, LEE John -TREASURY <john.s.lee@opg.com> wrote:

>

> Ken:

> To clarify the expectation is that equity injected into OPG which is on-lend to the Trust would result in net interest income that would roll up to the Province and this would cover the interest expense for the associated debt at the Province. The dividend comment was meant to describe mechanism on how to get cash to the province.

>

> John

>

> -----Original Message-----

> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]

> Sent: Wednesday, February 15, 2017 5:51 PM

> To: LEE John -TREASURY; 'Veinot, Cindy (TBS)'

> Cc: Nadine Petsche (MOF)

> Subject: RE: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral

>

> Hi John and Cindy

>

> I just realized that in the event of an equity injection by the Province to OPG for a maximum of 49%, will as we discussed, have no impact on the Province's net debt.

>

> Unfortunately there will be an IOD impact. John, I remember you mentioning that OPG will increase the dividends it pays to the Province by an amount equivalent to the interest on the equity injection to date, however, that will only provide a cash and not a fiscal offset.

>

> The only way a fiscal offset can be provided is if OPG's net income increases by an amount equal to the increase in the Province's IOD (all else being equal). In which case the Province will be fiscally whole upon consolidation.

>

> But I am not sure that going to happen since the Trust will not contribute to OPG's bottom line, or at least that's my understanding.

>

> As such the potential fiscal impact from the increased IOD may be an issue for the Province re this option. In any event I will check with Gadi and circle back.

>

> Thanks

>

> Ken k

>

> -----Original Message-----

> From: HAHN PARKER Janet -TREASURY [mailto:j.hahnparker@opg.com]

> Sent: Wednesday, February 15, 2017 4:50 PM

> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>

> Cc: LEE John -TREASURY <john.s.lee@opg.com>; 'Veinot, Cindy (TBS)'

> <Cindy.Veinot@ontario.ca>

> Subject: RE: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral

>

> Thank you. Will do.

>

> -----Original Message-----

> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]

> Sent: Wednesday, February 15, 2017 4:49 PM

> To: HAHN PARKER Janet -TREASURY

> Cc: LEE John -TREASURY; 'Veinot, Cindy (TBS)'

> Subject: RE: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral

>

> Cindy is free now if you can set up the call.

>

> Thanks

>

> Ken k

>
> -----Original Message-----
> From: HAHN PARKER Janet -TREASURY [mailto:j.hahnparker@opg.com]
> Sent: Wednesday, February 15, 2017 3:43 PM
> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: LEE John -TREASURY <john.s.lee@opg.com>
> Subject: RE: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral
>
> Thank you.
> This is of utmost importance. Please advise soonest.
> Janet
>
> -----Original Message-----
> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
> Sent: Wednesday, February 15, 2017 3:37 PM
> To: HAHN PARKER Janet -TREASURY
> Cc: LEE John -TREASURY
> Subject: RE: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral
>
> My apologies for the delay, unfortunately I am yet to hear back from Cindy, will let you know as soon as I do.
>
> Thanks
>
> Ken K
>
> -----Original Message-----
> From: HAHN PARKER Janet -TREASURY [mailto:j.hahnparker@opg.com]
> Sent: Wednesday, February 15, 2017 1:57 PM
> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: LEE John -TREASURY <john.s.lee@opg.com>
> Subject: RE: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral
>
> Ken,
>
> Please advise on this call. Timing is important.
> A prompt response would be most appreciated,
>
> Thank you,
> Janet Hahn Parker
>
> 416 592-6749
> j.hahnparker@opg.com
>
> -----Original Message-----
> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
> Sent: Wednesday, February 15, 2017 9:30 AM
> To: LEE John -TREASURY
> Cc: CHENG Alec -FIN & C CTRL; RYFA Ken -TREASURY; LIU Sheen -TREASURY; HAHN PARKER Janet -TREASURY
> Subject: EXTERNAL - RE: OEFC Funding of the Global Adjustment Deferral
>
> *** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. ***
>
> Thanks John for the quick response, I have forwarded your email to Cindy, since her presence and/or Nadine's is essential if we are having a conference call, will get back to you as soon as I hear from her.
>
>
> Ken K
>
> -----Original Message-----
> From: LEE John -TREASURY [mailto:john.s.lee@opg.com]
> Sent: Wednesday, February 15, 2017 9:09 AM

> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: CHENG Alec -FIN & C CTRL <alec.cheng@opg.com>; RYFA Ken -TREASURY
<ken.ryfa@opg.com>; LIU Sheen -TREASURY <sheen.liu@opg.com>; HAHN PARKER Janet -
TREASURY <j.hahnparker@opg.com>
> Subject: RE: OEFC Funding of the Global Adjustment Deferral

>
> Ken:

>
> Got your voice message with respect to your proposal to have OEFC fund the Global Adjustment
deferral indirectly by lending to OPG and having OPG subsequently lend to a Financing Trust. I
agree that this would be the simplest funding mechanism. However since the key objective for the
Province to avoid having to recognize the debt and writeoff the Global Adjustment deferral OPG must
maintain Government Business Entity (GBE) status. In order to remain a GBE, we must be able to "in
the normal course of its operations, maintain its operations and meet its liabilities from revenue
received from sources outside of the government reporting entity." I understanding from Alec Cheng
(OPG accounting) who was on yesterday accounting call with Nadine (Controllers Office) that OPG
GBE status would be put at high risk under the proposed scheme due to the proposed quantum of
lending from the OEFC. Our accounting group along with Treasury will be performing some further
assessment on this but it may be worth arranging another call with you and your accounting group to
layout the issues since the Province seems to be driven by very tight and uncertain timelines and I
want everyone to be up to speed.

>
> We can make ourselves available for a call this morning. Please advise.

>
>
> John

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