RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

From: "Veinot, Cindy (TBS)" <"/o=govon/ou=exchange administrative group (fydibohf23spdlt)/cn=recipients/cn=veinot, cindy (tbs)d57">
To: "Kandeepan, Ken (OFA)" <ken.kandeepan@ofina.on.ca>
Cc: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>, John Psinas <john.psinas@ofina.on.ca>
Date: Sun, 26 Feb 2017 16:00:43 -0500

I still don't see how the OPG has any cash to pay interest or dividends – there is a net outflow of cash to IESO during the initial years.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: February-26-17 3:59 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); John Psinas
Subject: FW: EXTERNAL - Urgent -- Electricity Rate Mitigation

My apologies, small error corrected version below.

From: Ken Kandeepan
Sent: Sunday, February 26, 2017 3:52 PM
To: 'Veinot, Cindy (TBS)' <Cindy.Veinot@ontario.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

I guess the Trust receives the 0.77 from IESO as revenues, 51% of this goes to pay the interest on the external market borrowing and 49% to OPG for their loan to the Trust. Since OPG only borrowed 5% of this 49% (the 44% is funded by an equity injection from the Province) it retains the 44% of 0.77 as both interest income and cash.

That cash is available to increase the dividends to the Province.

Thanks

Ken k

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Sunday, February 26, 2017 3:48 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

Ok – assumption is that the cash from the dividends can be used to pay the interest on the increased debt – not clear to me where OPG will get the cash to pay any dividends during years 14

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: February-26-17 3:45 PM
To: Veinot, Cindy (TBS)
Cc: John Psinas; Petsche, Nadine (TBS)
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

Actually Cindy in the first year the Province's equity injection will be 0.44*30.77=13.54. the Province will borrow this amount and assume it pays 5% interest its IOD will increase by 13.54*.05=0.34.

OPG consolidated net income also increase by 0.34 (row 111). Upon equity consolidation the Province is fiscally whole, however, the Province still requires cash to pay its bondholders the 0.34. If the dividends from OPG include this 0.34 then the Province is whole fiscally and cash wise.

Thanks

Ken k

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Sunday, February 26, 2017 3:36 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

yes – hoping OPG will join the call at 8 – we can also discuss the dividend comment – when the Province receives dividends from OPG, I'm assuming the entry is Dr. Cash, Cr. Investment in GBE – so no fiscal impact. I'm not sure I understand the comment about dividends offsetting IOD unless its from using the cash from the dividend to repay debt.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: February-26-17 3:33 PM
To: Veinot, Cindy (TBS)
Cc: John Psinas; Petsche, Nadine (TBS)
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

Good questions Cindy we can discuss with OPG tonight, in the meantime my responses in red:

- CV – We need to determine if OPG has discussed this with Energy – and it's not clear to me where the cash comes from in their entries (row 55 of OPG's model. The way I see it based on the year 1 numbers- the OPG Trust sets up an intangible asset of 30.77 but pays only 30.00 to IESO with the difference credited to interest income. Alternatively, the interest component of the bill flows directly to the Trust and the Trust flows 30.77 to IESO and purchases the regulatory asset set up the latter. Either way the Trust takes possession of the interest income and the associated cash. We can confirm with OPG tonight. Note that since the deferral is 30.77, the total loan funding to the Trust from OPG and the capital markets should also equal 30.77.
- – CV – I think OPG will receive income from the Trust on only two sources – the loan resulting from the 44% equity injection from the Province to OPG and the loan resulting from the 5% from OPG itself (from its external borrowings) – so those will net out and the consolidated OPG statements will have net interest income based on difference between the income from the ratepayers and the expense for 56% of the debt. The additional interest related to 44% of the debt (in OFA) will be the final net amount against the net interest income from OPG . Agreed, assuming OPG's net income prior to this interest remains unchanged in the near future from what is already in the Province's fiscal plan, the additional interest on the 44% will constitute a direct offset to the Province's incremental IOD from the debt incurred for the equity injection.
- CV – just to clarify – the cash dividends will be used to pay down provincial debt . Not really, OPG is consolidated on the equity basis so unless OPG declares dividends there is no cash movement from OPG to the Province. If the dividends are equal to the interest on the 44% equity injection then they will constitute both a cash and fiscal offset to the Province's incremental IOD. In the absence of these dividends, and I am limiting myself to the first 14 years until 2030 where the deferral keeps increasing, the Province will have a fiscal offset but suffer a cash shortfall.

Hope this is useful, if you want to have quick discussion before the 8PM tele-conference don't hesitate to call, 905-946-0655

Thanks

Ken k

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Sunday, February 26, 2017 1:52 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

Thanks for looking at this – see my comments/questions below

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: February-25-17 4:15 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: John Psinas
Subject: FW: EXTERNAL - Urgent -- Electricity Rate Mitigation

Hi Cindy and Nadine

John and I went through the accounting entries from OPG and have the following comments.

- OPG assumes that the Trust will collect interest revenues that are equal to its interest expense. It appears that these interest revenues will be collected from ratepayers based on the sample customer bill at the top of their sheet. – CV – We need to determine if OPG has discussed this with Energy – and it's not clear to me where the cash comes from in their entries (row 55 of OPG's model).
- The deferral amount includes the interest so that the net deferral for the ratepayer remains constant at 30%
- As a result the income statement of the Trust will present a net income of zero over the first 14 years or so during which the deferral is provided.
- Since OPG receives interest from the Trust on all three funding sources (the 51% from the external markets, 44% from the equity injection that OPG subsequently loans to the Trust and the balance 5% from OPG which it borrows externally) OPG's net interest income and its net income (all else being equal will increase by the amount of the interest attributable to the equity injection – CV – I think OPG will receive income from the Trust on only two sources – the loan resulting from the 44% equity injection from the Province to OPG and the loan resulting from the 5% from OPG itself (from its external borrowings) – so those will net out and the consolidated OPG statements will have net interest income based on difference between the income from the ratepayers and the expense for 56% of the debt. The additional interest related to 44% of the debt (in OFA) will be the final net amount against the net interest income from OPG.
- That in turn, upon consolidation, will offset on a fiscal basis the increase in the Province's IOD attributable to the debt incurred to provide the equity injection.
- Presumably OPG's annual dividends will increase by the amount of the net interest revenue(0.34,1.05 and 1.78 respectively in the spreadsheet) providing the Province with a cash offset for the increase in its IOD. – CV – just to clarify – the cash dividends will be used to pay down provincial debt
- One issue is the ability of the Trust to borrow senior debt from the markets at 5%. Presumably some sort of legislative guarantee may be required in which case the Rating agencies may include this debt with that of the Province is assessing its rating. However, that is something that can be reviewed later and with considerably more expertise by Gadi.

On this basis I would very cautiously conclude that this approach will work and there will be no net fiscal impact to the Province and OPG. Unfortunately, the Province's IOD will increase along with a key ratio such as IOD to revenues, however, that last impact should be mitigated to some extent by the BPS line by line consolidation which will increase revenues substantially.

If required, I am available for discussion over the balance of today and any time after 12.30PM tomorrow.

Let me know if you agree with my conclusions and if so I will let Gadi know to pass it on to Scott.

Thanks

Ken k

-----Original Message-----
From: CHENG Alec -FIN & C CTRL [mailto:alec.cheng@opg.com]
Sent: Saturday, February 25, 2017 12:15 AM
To: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; MAUTI John -FIN & C CTRL <john.mauti@opg.com>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; LEE John -TREASURY <john.s.lee@opg.com>
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

As requested, we have updated the model for OPG and Trust based on the parameters specified – bills of $100, $105, $95 over the next 3 years as outlined in your illustration. We have to add in the interest portion for reflect the recovery in your example. Also, we wanted to note that the example in your illustration is based on deferral of actual bill (not the GA amount), which is different from our understanding of how the deferral would work. But I trust the illustration is sufficient to illustrate OPG's and the Trust's accounting for your purposes.

As mentioned before, I understand that this is a simplified model, but some additional features could be added at a later date when there is sufficient certainty. For example:

o the financing model would include debt at different rates based on the tranche and the rate implicitly charged to customers would be determined based on the ultimate model and the legislation (may not be the same as the debt financing rate)

o the Trust may have embedded features which may be introduce variability into the Trust.

Alec

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, February 24, 2017 5:02 PM
To: CHENG Alec -FIN & C CTRL; MAUTI John -FIN & C CTRL
Cc: Kandeepan, Ken (OFA); Veinot, Cindy (TBS); LEE John -TREASURY
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation

Alec/John,
To help us better understand the interest impact on the Province overall, it would be helpful if you could complete the interest related entries in the original model (attached) for OPG and OPGTrust, for the first couple of years.
Also, we wondered if could share any details on how the billing is anticipated to work (based on discussions you may have had with the Ministry of Energy).
We will monitor our emails for your response.
Thanks in advance.
Nadine

From: CHENG Alec -FIN & C CTRL [mailto:alec.cheng@opg.com]
Sent: February-24-17 4:06 PM
To: CHENG Alec -FIN & C CTRL; Petsche, Nadine (TBS); MAUTI John -FIN & C CTRL
Cc: Kandeepan, Ken (OFA); Veinot, Cindy (TBS); LEE John -TREASURY
Subject: RE: EXTERNAL - Urgent -- Electricity Rate Mitigation (feedback requested today)

Sorry, sent this before I attached the table.

Customer Bill

Current Yr

New Yr

0

1

2

3

Other (Non-GA components)

60

60

60

60

GA

100

100

100

100

GA Deferral

-30

-31.5

-33.1

Interest

1.5

3.1

Total Bill

160

130

130

130

From: CHENG Alec -FIN & C CTRL
Sent: Friday, February 24, 2017 4:04 PM
To: 'Petsche, Nadine (TBS)'; MAUTI John -FIN & C CTRL
Cc: Kandeepan, Ken (OFA); Veinot, Cindy (TBS); LEE John -TREASURY
Subject: RE: EXTERNAL – Urgent -- Electricity Rate Mitigation (feedback requested today)

Our comments:

- We cannot verify the IESO entries, but assuming that KPMG is looking at that.

- The current proposal is to have the Trust collect revenue from customers, so the Trust should recognize revenue (which comprise of interest and other recovery amounts) before we start collecting the principal amount from the customers (i.e. before year 5) (see the table below as an illustration)

- I understand that this is a simplified model, but some additional features should be added at a later date when we have more certainty:

o the financing model would include debt at different rates based on the tranche and the rate implicitly charged to customers would be determined based on the ultimate model and the legislation (may not be the same as the debt financing rate)

o the Trust will have embedded features which will introduce other variability into the Trust

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, February 24, 2017 12:28 PM
To: MAUTI John -FIN & C CTRL; CHENG Alec -FIN & C CTRL
Cc: Kandeepan, Ken (OFA); Veinot, Cindy (TBS); LEE John -TREASURY
Subject: EXTERNAL – Urgent -- Electricity Rate Mitigation (feedback requested today)
Importance: High

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John/Alec,

In advance of next Monday's FPC meeting, we would like to confirm our understanding of the net fiscal impact under the Electricity Rate Mitigation model as currently envisioned. Attached for your review is a model outlining the transactions and impacts as we understand them. The net impact on interest expense to OFA and the Trust appears on lines AS 40 – AS 42.

We would appreciate your comments on the attached as well as any suggestions on how to address the net fiscal impact over the term of the proposal, today if possible.

Regards,
Nadine

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