From: Ken Kandeepan
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: Call with OPG
Date: Wednesday, February 15, 2017 5:41:14 PM

Hi Gadi

As requested by OPG, Cindy and I just finished a conference call with them. OPG is of the opinion and Cindy concurs that OEFC lending the full amount to either OPG or the Trust will seriously jeopardize the OPG's GBE status.

In order to maintain the status they propose;

That funding from the Province be limited to 49% of the amount required by the Trust and be in the form of an equity injection from the Province. An equity injunction means that the Province's net debt is not impacted since the increase in total debt is offset by an equivalent increase in the investment in OPG.

There will be an impact to IOD. John Lee indicates that OPG can in fact increase dividends to offset the cash impact of the increased IOD, but that doesn't help from a fiscal perspective. However, unless OPG's net income increases and I am not sure that is possible since setting up the Trust does not contribute to net income, IOD and consequently the fiscal plan will be impacted fairly substantially as the equity injection ramps up.

I indicated to John that I will run this by you and get back to him tomorrow, but given the possible fiscal impact, not sure how doable this is.

Perhaps a quick meeting tomorrow AM with you and Ron maybe a good idea if you are available. I am in the office now if you want to call.

Thanks

Ken k

From:	Gadi Mayman
To:	Mike Manning
Cc:	Lynsey Wynberg
Subject:	FW: Call with OPG
Date:	Thursday, February 16, 2017 10:02:27 AM

I just noticed that you weren't on this email chain.

-----Original Message-----
From: Gadi Mayman
Sent: Thursday, February 16, 2017 9:36 AM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Scott Nelms (ENERGY) <Scott.Nelms@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Call with OPG

That's a fascinating suggestion if it works on leaving OPG as a GBE, as it dispenses with the need for a complex equity structure and it, with the recycling of the spread, ends up with the ratepayers effectively getting the lowest possible rate while leaving us fiscally whole.

Gadi

-----Original Message-----
From: Ronald Kwan
Sent: Thursday, February 16, 2017 9:30 AM
To: Scott Nelms (ENERGY) <Scott.Nelms@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: RE: Call with OPG

Hi Scott,

Just brainstorming here, but I'm thinking that on the nuclear funds, the Province provides some risk sharing, but not all, and OPG is still a GBE, so I think it would be interesting to see where the advice might be on what share of external borrowing is advised on the appropriate share to mitigate the risk.

Also, has there been a concern expressed on GBE status if all the financing is done at the government's rate? Might that raise a concern that OPG is not fully self-sustaining due to an implicit subsidy? If a commercial spread is charged by OEFC, perhaps informed as is currently by a survey or a tranche of third-party lending, would that help make the GBE case? I'd note as well that it seems possible to me that OEFC could have its objects looked at and be directed to recycle the spread to the IESO to benefit ratepayers, as OEFC does now on the IEI for amounts equal to the related DRC revenues.

Ron

-----Original Message-----
From: Nelms, Scott (ENERGY) [mailto:Scott.Nelms@ontario.ca]
Sent: February-16-17 08:39
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: Re: Call with OPG

Hi Ron,

I think OPG is focusing on the $33B option for now. Possible that capital structure would change at smaller financing levels.

Why all outside borrowing: as I have heard OPG explain it, there are several accounting tests they are working through with their external auditors and with OPCD, in order to consolidate the Trust to OPG's financials. This is important in order to preserve the intangible asset upon consolidation to the Province. There is no bright line test for this, so it is a build up of a number of factors. One important test is whether they are responsible for losses and benefit from any gains from the trust. If it looks like the Province is providing a back stop this may not work.

Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ronald Kwan
Sent: Thursday, February 16, 2017 8:07 AM
To: Kandeepan, Ken (OFA)
Cc: Nelms, Scott (ENERGY); Mayman, Gadi (OFA)
Subject: Re: Call with OPG

Why does all of the debt have to be external borrowing?

Ron

> On Feb 16, 2017, at 7:15 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
> That was not discussed at my call, having said that the greater the equity injection, up to 49% of course, the lesser the amount to be borrowed from outside lenders.
>
> Perhaps Scott has at additional info
>
> Thanks
>
> Ken k
>
>> On Feb 16, 2017, at 5:06 AM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
>>
>> Hi Scott, Ken,
>>
>> Just for my understanding, is OPG putting forward the 49% regardless of the size of the borrowing?
>>
>> Would it be potentially lower if the total debt to be borrowed were under 20 vs almost 33B?
>>
>> Ron
>>
>>> On Feb 15, 2017, at 10:50 PM, Nelms, Scott (ENERGY) <Scott.Nelms@ontario.ca> wrote:
>>>
>>> Hi,
>>>
>>> I circled back with OPG for clarity. Here is the latest on the model, as explained to me:
>>>
>>> - province provides 49 percent equity infusion to OPG (current OPG)
>>> - OPG lends to Trust at 5 percent
>>> - this enables OPG trust to borrow remaining amount from external sources
>>> - OPG Trust recovers principle and interest sufficient to cover OPG and 3rd party loans, from ratepayers per schedule
>>> - OPG Trust repays OPG and OPG books interest revenue which is consolidated to the Province, offsetting incremental IOD costs (with some potential timing impacts)
>>>
>>> Details are still being worked through, but this appears to be the concept.

>>>
>>> Scott
>>>
>>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>>> Original Message
>>> From: Ken Kandeepan
>>> Sent: Wednesday, February 15, 2017 10:26 PM
>>> To: Kwan, Ronald (OFA)
>>> Cc: Mayman, Gadi (OFA); Nelms, Scott (ENERGY); Thompson, Scott (MOF); McLean, David (MOF); Wynberg, Lynsey (OFA); Kennedy, Nancy (MOF)
>>> Subject: Re: Call with OPG
>>>
>>>
>>> On your last point, not really. If the province borrows and used the proceeds to make a loan the interest rate on the loan should be equal or greater than its cost of debt. Otherwise as you point out an upfront loss is triggered.
>>>
>>> My understanding of the accounting rules is that such is not the case for an equity injection where the expected return, if any, need not be directly linked to the cost of the Province's debt.
>>>
>>> Having said it goes back to Gadi's point that OPG provides the province with an ROE which is either recovered from the ratepayers each year hence reducing the GA smoothing benefit or recovered later. In other words ratepayer pays now or later.
>>>
>>> Of course if no ROE then the Province bears the fiscal burden of the interest for the debt to fund the equity injunction.
>>>
>>> Thanks
>>>
>>> Ken k
>>>
>>>
>>>
>>> Thanks
>>>
>>> Ken
>>>
>>>> On Feb 15, 2017, at 9:43 PM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
>>>>
>>>> Hi Gadi,
>>>>
>>>> I agree on all that. The more complicated the structure, the harder it will be to explain and the more subject to complaints and misinformation, innocent or not.
>>>>
>>>> Technically, on the government's equity, covering its debt cost to finance the equity makes perfect sense. That said, there are still people asking why the rate regulated OPG ROE can't be zero, forgetting that the Province still has to service the debt it took on to acquire the equity.
>>>>
>>>> The GA situation will be that much worse to explain.
>>>>
>>>> And, as you note, the third party debt cost would be even harder to explain, and some ratepayers might say they'd rather pay now than pay later with interest.
>>>>
>>>> You raise the notion of the Province offsetting the external debt cost with a lower cost of equity on its 49%. That would be a very hard one to explain, and I think there'd have to be an accounting analysis on that -- aside from the annual "loss" on the equity, would there need to be an upfront write down or provision expense?
>>>>
>>>> Ron

>>>>
>>>>> On Feb 15, 2017, at 9:25 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:
>>>>>
>>>>> That'd be a tough one to explain to ratepayers, and the OEB, whom I'd assume would have to opine on any ROE.
>>>>>
>>>>> If the external cost of borrowing for OPG is at 5 per cent, then you could theoretically have an ROE of 5 per cent to meet the parameters of the model. If the external cost of borrowing is higher than that, which we won't know in advance, the ROE would would have to be lower, so if, for example, the borrowing cost is 6 per cent, we'd only be able to have an ROE of 4 per cent (I'm simplifying the 49/51 to 50/50).
>>>>>
>>>>> I'm not a communications person, so maybe they could explain it, but whatever ROE we have, I'm still stuck on the point I raised in my last email: how to give a simple answer to the public about why they should be paying interest to someone outside the system and an ROE to the government to lower their bills.
>>>>>
>>>>> I know the interest cost would have to be explained even under the previous model of 100% government lending to the entity. People might be less fussed about that, the same way as they're less concerned about the tolls on the new section of the 407 than the old section, as someone I heard say on the radio, "at least we're paying it to ourselves instead of to a Spanish construction company." Converting it to equity instead of debt adds to the complication of explaining it, I'd think.
>>>>>
>>>>> Of course, given the alternative of the whole thing hitting the fiscal plan, maybe this is still better...
>>>>>
>>>>> Original Message
>>>>> From: Nelms, Scott (ENERGY)
>>>>> Sent: Wednesday, February 15, 2017 8:59 PM
>>>>> To: Gadi Mayman; Scott Thompson (CAB)
>>>>> Cc: David McLean (MOF); Ronald Kwan; Ken Kandeepan; Lynsey Wynberg; Nancy Kennedy (MOHLTC)
>>>>> Subject: Re: Call with OPG
>>>>>
>>>>> I agree. It would be a direct cost to ratepayers. There is a 5 percent cost of capital assumption embedded in the model, so we would want to get as close as possible to that (or less) on an all in basis. Not sure if that is feasible with 50 percent equity.
>>>>>
>>>>> We can confirm with OPG what is being assumed - last I heard they needed some amount of potential for profit (but it can be small) in order to meet the test to consolidate the Trust to OPG's financials.
>>>>>
>>>>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>>>>> Original Message
>>>>> From: Gadi Mayman
>>>>> Sent: Wednesday, February 15, 2017 8:46 PM
>>>>> To: Nelms, Scott (ENERGY); Thompson, Scott (MOF)
>>>>> Cc: McLean, David (MOF); Kwan, Ronald (OFA); Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Kennedy, Nancy (MOF)
>>>>> Subject: Re: Call with OPG
>>>>>
>>>>>
>>>>> I'd think, off the top of my head, but would be happy to be corrected by the accountants, that any ROE would be a one-for-one hit to the ratepayer for every dollar we give to the fiscal plan. I'm not sure how that would be explained to ratepayers: you're paying interest to private investors and a return on equity to the Province so that your bill is lower now, but will be higher later?
>>>>>
>>>>> Original Message
>>>>> From: Nelms, Scott (ENERGY)
>>>>> Sent: Wednesday, February 15, 2017 8:19 PM
>>>>> To: Gadi Mayman; Scott Thompson (CAB)
>>>>> Cc: David McLean (MOF); Ronald Kwan; Ken Kandeepan; Lynsey Wynberg; Nancy Kennedy (MOHLTC)

>>>>> Subject: Re: Call with OPG
>>>>>
>>>>>
>>>>> Hi Gadi,
>>>>>
>>>>> Thanks for passing this along. We had been hearing from OPG that the equity thickness would be relatively modest. 49 percent is certainly a departure from that. We also heard that some sort of return on the equity would be required in order to meet accounting objectives (although based on the email chain below perhaps that has evolved).
>>>>>
>>>>> If an ROE is included, would that help to offset the fiscal downside that you describe? We have to be careful in adding materially to the cost to ratepayers, so will have to look at this tradeoff.
>>>>>
>>>>> Scott
>>>>>
>>>>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>>>>> From: Gadi Mayman
>>>>> Sent: Wednesday, February 15, 2017 6:59 PM
>>>>> To: Thompson, Scott (MOF)
>>>>> Cc: McLean, David (MOF); Kwan, Ronald (OFA); Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Nelms, Scott (ENERGY); Kennedy, Nancy (MOF)
>>>>> Subject: Fw: Call with OPG
>>>>>
>>>>>
>>>>> Hi Scott. In the roller coaster ride with whether the OPG solution for the GA works, we've just hit a pretty big bump, as you'll see from Ken's email below. I suggest that you scroll down and read that before carrying on with my email, as what I'm going to write next may be hard to follow without the context of Ken's email.
>>>>>
>>>>> If we inject equity in the quantity OPG Is suggesting, it should make it easier for them to borrow externally, although they'd have to sound out the market and find out whether they can, and, more importantly, at what additional cost relative to the Province's funding cost. It may require a provincial guarantee, which we used to give to the old Ontario Hydro, but I don't know whether that also is something that would affect their GBE status.
>>>>>
>>>>> Possibly of more significance is that IOD would rise substantially. If we make an equity contribution of half of the total amount they need for the GA, we'd have to borrow money without any offsetting earnings. It would start off in manageable amounts in the early years, but as the equity stake grows, the amount of interest does as well. In the scenario that Ron showed you this afternoon where interest made up up $30 billion of the total cost, about $15 billion in IOD would be added over the life of the option, if debt and equity are repaid at an equal pace to each other in the out years. Of course, if we discard this option and put this on the fiscal plan, IOD also goes up, but it would eliminate the need for OPG to borrow at a higher cost than the Province's borrowing cost.
>>>>>
>>>>> OPG apparently indicated on the call that they could increase their dividend to offset some of the cash that we're providing, which, on the surface would reduce our borrowing requirements and thus lessen IOD, but OPG would need to find the cash from somewhere else, so their interest costs would go up, reducing their earnings and hitting the fiscal plan that way. Since our cost of borrowing is lower than theirs, I'm not sure having them send us money makes fiscal sense. And, of course, hanging over this whole discussion is that OPG needs over $10 billion over the coming years to finance the Darlington refurbishment.
>>>>>
>>>>> Happy to discuss further at your convenience.
>>>>>
>>>>> Gadi
>>>>>
>>>>>
>>>>>
>>>>> From: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>>>>> Sent: Wednesday, February 15, 2017 6:09 PM
>>>>> To: Gadi Mayman
>>>>> Cc: Lynsey Wynberg; 'Veinot, Cindy (TBS)'; Ronald Kwan

>>>>> Subject: FW: Call with OPG
>>>>>
>>>>>
>>>>> Hi Gadi
>>>>>
>>>>> As discussed pls find a quick summary of our call with OPG. I understand that you will be passing this on to Scott. Cindy, you may wish to so to Helen as well.
>>>>>
>>>>>
>>>>> As requested by OPG, Cindy and I just finished a conference call with them. OPG is of the opinion that OEFC lending the full amount to either OPG or the Trust will seriously jeopardize the OPG's GBE status.
>>>>>
>>>>> In order to maintain the status they propose;
>>>>>
>>>>> That funding from the Province be limited to 49% of the amount required by the Trust and be in the form of an equity injection from the Province. An equity injunction means that the Province's net debt is not impacted since the increase in total debt is offset by an equivalent increase in the investment in OPG.
>>>>>
>>>>> OPG also asserted that the balance 51% has to be from an outside lender in order to preserve OPG's GBE status.
>>>>>
>>>>> Another reason for OPG also preferring the equity option instead of the Province lending the 49% is that they believe incorporating so much debt in their balance sheet with no offsetting income to service the debt will jeopardize their credit rating and impact OPG's "going concern" concept.
>>>>>
>>>>> From the Province's perspective there will be a material impact to IOD.
>>>>>
>>>>> John Lee indicates that OPG can in fact increase dividends to offset the cash impact of the increased IOD, but that doesn't help from a fiscal perspective. Unless OPG's net income increases and I am not sure that is possible since setting up the Trust does not contribute to net income, IOD and consequently the fiscal plan will be impacted fairly substantially as the equity injection ramps up.
>>>>>
>>>>> I indicated to John that I will run this by you and get back to him tomorrow, but given the possible fiscal impact, not sure how doable this is.
>>>>>
>>>>> Thanks
>>>>>
>>>>> Ken k
>>>>>
>>>>> ________________________________
>>>>>

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Ronald Kwan; Lynsey Wynberg; Mike Manning; Gavin He
Subject:	RE: EXTERNAL – RE: OEFC Funding of the Global Adjustment Deferral
Date:	Thursday, February 16, 2017 8:59:48 AM

Hi Gadi
My understanding is that when the asset is sold to OPG Trust by the IESO it converts into an intangible asset as opposed to a regulatory asset. This is because there is no OEB requirement in the future in order to write down the asset. The write down can commence theoretically from the point in time the GA recoveries exceed the payment to generators.
With regard to your second question the OPG uses the Province's equity injection (assuming that the approach that's agreed upon) to lend to the Trust. If so yes the OPG makes money on that segment. Having said that the Trust will capitalize the interest expense on their books and actual payment of the interest to OPG commences only when the GA recoveries exceed the payment to generators.
There may be issues from the OPG's auditors on how OPG can recognize the interest income given that actual settlement is many years into the future. This is probably why we require further details from OPG on this option.
Thanks
Ken k

From: Gadi Mayman
Sent: Wednesday, February 15, 2017 11:54 PM
To: Ken Kandeepan
Cc: Ronald Kwan ; Lynsey Wynberg ; Mike Manning ; Gavin He
Subject: Re: EXTERNAL – RE: OEFC Funding of the Global Adjustment Deferral
Hmmm. If I understand this chain correctly, and I'm likely missing something important, would we have a non-regulated entity making hundreds of millions of dollars a year that the ratepayers ultimately have to cover in the future? Or would it be OPG, not the trust, making that profit from the interest on their loan to the trust, and if it's OPG making the profit, can't the OEB weigh in? If either's the case, it would be kind of contrary to the very robust language the government has been using about the OEB providing ratepayer protection with privatized electrical utilities.

On Feb 15, 2017, at 10:36 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> That's my understanding as well.
> Thanks
> Ken k
>
> On Feb 15, 2017, at 10:34 PM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
>
>> Hi. Ken, emails crossed. I agree, but it would mean OPG is not being regulated by the OEB on this.
>> Ron
>>
>> On Feb 15, 2017, at 10:32 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

No, I was informed by OPCD that IESO will set up the reg asset as you point out but will promptly sell same to the Trust. So the expectation is that at the end of each fiscal year the reg asset set up in that year would be sold to the OPG Trust.
Thanks
Ken k

On Feb 15, 2017, at 10:27 PM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:

> Hi,
> I may be wrong on this, so correct me if so, as I have not been at the accounting meetings on this structure.
> But, based on the Energy submission, I took it as IESO would have the regulatory asset.
> As such, I took it that the Trust would be outside of OPG's OEB regulated entity.
> Ron
>
> On Feb 15, 2017, at 10:21 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:
>
>> First getting it past their auditors will be a challenge, as you've said, and secondly getting the OEB to accept that OPG should be earning the extra $750 million per year that we'd need at the peak of the debt accumulation will be even more challenging. It would have to be a hit to ratepayers. That would be even harder to explain than a hit to them from an ROE to the Province, which, as you've seen, I've had trouble wrapping my mind around in earlier emails.
>>
>> On Feb 15, 2017, at 10:11 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>>
>>> Not entirely, though the underlying concept is similar. This is

just logical speculation on my part but what John is probably driving at is the Trust pays OPG the interest but instead of expensing same it's capitalized.
As such when the Trust is consolidated with OPG the interest income remains in OPG's books since there is no expense to offset it in the books of the Trust.
Ergo, OPG has a net interest income which all else being equal increases its net income, which in turn when consolidated with Province, provides the required fiscal offset to the increase in the Province's IOD.
The problem here would be how willing OPG's auditors will be in recognizing an interest income on OPG books that will be paid in about 15 years time and that too on a piecemeal basis.
Having said all of this let me repeat I may be quite mistaken and John may have a more feasible solution in mind.
Thanks
Ken k

On Feb 15, 2017, at 9:36 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

Sounds to me that they're going where Scott Nelms alluded to in his email with an ROE for the Province that would offset our borrowing cost? Adding Ron and Mike so that all of us at the OFA are aware of the same facts, as this is moving quickly, and any of us may be asked at any time about it, including on Friday when you and I are away, Ken.

Gadi

From: Ken Kandeepan
Sent: Wednesday, February 15, 2017 9:19 PM
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: Fwd: EXTERNAL – RE: OEFC Funding of the Global Adjustment Deferral

Hi Gadi

My exchange with John,

as you
can see
little
short
on the
details.
Thanks
Ken k

Begin
forwarded
message:

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

Date:
February
15,
2017
at
6:36:48
PM
EST

To:
LEE
John
-
TREASURY
<john.s.lee@opg.com>

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 â €“ 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
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if
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Ken
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Original
Message-
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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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From:	Nelms, Scott (ENERGY)
To:	Ken Kandeepan; Ronald Kwan
Cc:	Gadi Mayman; Scott Thompson (CAB); David McLean (MOF); Lynsey Wynberg; Nancy Kennedy (MOHLTC)
Subject:	Re: Call with OPG
Date:	Wednesday, February 15, 2017 10:50:25 PM

Hi,

I circled back with OPG for clarity. Here is the latest on the model, as explained to me:

- province provides 49 percent equity infusion to OPG (current OPG)
- OPG lends to Trust at 5 percent
- this enables OPG trust to borrow remaining amount from external sources
- OPG Trust recovers principle and interest sufficient to cover OPG and 3rd party loans, from ratepayers per schedule
- OPG Trust repays OPG and OPG books interest revenue which is consolidated to the Province, offsetting incremental IOD costs (with some potential timing impacts)

Details are still being worked through, but this appears to be the concept.

Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Wednesday, February 15, 2017 10:26 PM
To: Kwan, Ronald (OFA)
Cc: Mayman, Gadi (OFA); Nelms, Scott (ENERGY); Thompson, Scott (MOF); McLean, David (MOF); Wynberg, Lynsey (OFA); Kennedy, Nancy (MOF)
Subject: Re: Call with OPG

On your last point, not really. If the province borrows and used the proceeds to make a loan the interest rate on the loan should be equal or greater than its cost of debt. Otherwise as you point out an upfront loss is triggered.

My understanding of the accounting rules is that such is not the case for an equity injection where the expected return, if any, need not be directly linked to the cost of the Province's debt.

Having said it goes back to Gadi's point that OPG provides the province with an ROE which is either recovered from the ratepayers each year hence reducing the GA smoothing benefit or recovered later. In other words ratepayer pays now or later.

Of course if no ROE then the Province bears the fiscal burden of the interest for the debt to fund the equity injunction.

Thanks

Ken k

Thanks

Ken

> On Feb 15, 2017, at 9:43 PM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
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> Hi Gadi,
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> I agree on all that. The more complicated the structure, the harder it will be to explain and the more subject to complaints and misinformation, innocent or not.
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> Technically, on the government's equity, covering its debt cost to finance the equity makes perfect sense. That said, there are still people asking why the rate regulated OPG ROE can't be zero, forgetting that the Province still has to service the debt it took on to acquire the equity.
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> The GA situation will be that much worse to explain.
>
> And, as you note, the third party debt cost would be even harder to explain, and some ratepayers might say they'd rather pay now than pay later with interest.
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> You raise the notion of the Province offsetting the external debt cost with a lower cost of equity on its 49%. That would be a very hard one to explain, and I think there'd have to be an accounting analysis on that -- aside from the annual "loss" on the equity, would there need to be an upfront write down or provision expense?
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> Ron
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>> That'd be a tough one to explain to ratepayers, and the OEB, whom I'd assume would have to opine on any ROE.
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>> If the external cost of borrowing for OPG is at 5 per cent, then you could theoretically have an ROE of 5 per cent to meet the parameters of the model. If the external cost of borrowing is higher than that, which we won't know in advance, the ROE would would have to be lower, so if, for example, the borrowing cost is 6 per cent, we'd only be able to have an ROE of 4 per cent (I'm simplifying the 49/51 to 50/50).
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>> I'm not a communications person, so maybe they could explain it, but whatever ROE we have, I'm still stuck on the point I raised in my last email: how to give a simple answer to the public about why they should be paying interest to someone outside the system and an ROE to the government to lower their bills.
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>> I know the interest cost would have to be explained even under the previous model of 100% government lending to the entity. People might be less fussed about that, the same way as they're less concerned about the tolls on the new section of the 407 than the old section, as someone I heard say on the radio, "at least we're paying it to ourselves instead of to a Spanish construction company." Converting it to equity instead of debt adds to the complication of explaining it, I'd think.
>>
>> Of course, given the alternative of the whole thing hitting the fiscal plan, maybe this is still better...
>>
>> Original Message
>> From: Nelms, Scott (ENERGY)
>> Sent: Wednesday, February 15, 2017 8:59 PM
>> To: Gadi Mayman; Scott Thompson (CAB)
>> Cc: David McLean (MOF); Ronald Kwan; Ken Kandeepan; Lynsey Wynberg; Nancy Kennedy (MOHLTC)
>> Subject: Re: Call with OPG
>>
>> I agree. It would be a direct cost to ratepayers. There is a 5 percent cost of capital assumption embedded in the model, so we would want to get as close as possible to that (or less) on an all in basis. Not sure if that is feasible with 50 percent equity.
>>
>> We can confirm with OPG what is being assumed - last I heard they needed some amount of potential for profit (but it can be small) in order to meet the test to consolidate the Trust to OPG's financials.
>>

>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>> Original Message
>> From: Gadi Mayman
>> Sent: Wednesday, February 15, 2017 8:46 PM
>> To: Nelms, Scott (ENERGY); Thompson, Scott (MOF)
>> Cc: McLean, David (MOF); Kwan, Ronald (OFA); Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Kennedy, Nancy (MOF)
>> Subject: Re: Call with OPG
>>
>>
>> I'd think, off the top of my head, but would be happy to be corrected by the accountants, that any ROE would be a one-for-one hit to the ratepayer for every dollar we give to the fiscal plan. I'm not sure how that would be explained to ratepayers: you're paying interest to private investors and a return on equity to the Province so that your bill is lower now, but will be higher later?
>>
>> Original Message
>> From: Nelms, Scott (ENERGY)
>> Sent: Wednesday, February 15, 2017 8:19 PM
>> To: Gadi Mayman; Scott Thompson (CAB)
>> Cc: David McLean (MOF); Ronald Kwan; Ken Kandeepan; Lynsey Wynberg; Nancy Kennedy (MOHLTC)
>> Subject: Re: Call with OPG
>>
>>
>> Hi Gadi,
>>
>> Thanks for passing this along. We had been hearing from OPG that the equity thickness would be relatively modest. 49 percent is certainly a departure from that. We also heard that some sort of return on the equity would be required in order to meet accounting objectives (although based on the email chain below perhaps that has evolved).
>>
>> If an ROE is included, would that help to offset the fiscal downside that you describe? We have to be careful in adding materially to the cost to ratepayers, so will have to look at this tradeoff.
>>
>> Scott
>>
>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>> From: Gadi Mayman
>> Sent: Wednesday, February 15, 2017 6:59 PM
>> To: Thompson, Scott (MOF)
>> Cc: McLean, David (MOF); Kwan, Ronald (OFA); Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Nelms, Scott (ENERGY); Kennedy, Nancy (MOF)
>> Subject: Fw: Call with OPG
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>>
>> Hi Scott. In the roller coaster ride with whether the OPG solution for the GA works, we've just hit a pretty big bump, as you'll see from Ken's email below. I suggest that you scroll down and read that before carrying on with my email, as what I'm going to write next may be hard to follow without the context of Ken's email.
>>
>> If we inject equity in the quantity OPG Is suggesting, it should make it easier for them to borrow externally, although they'd have to sound out the market and find out whether they can, and, more importantly, at what additional cost relative to the Province's funding cost. It may require a provincial guarantee, which we used to give to the old Ontario Hydro, but I don't know whether that also is something that would affect their GBE status.
>>
>> Possibly of more significance is that IOD would rise substantially. If we make an equity contribution of half of the total amount they need for the GA, we'd have to borrow money without any offsetting earnings. It would start off in manageable amounts in the early years, but as the equity stake grows, the amount of interest does as well. In the scenario that Ron showed you this afternoon where interest made up up $30 billion of the total cost, about $15 billion in IOD would be added over the life of the option, if debt and equity are repaid at an equal pace to each other

in the out years. Of course, if we discard this option and put this on the fiscal plan, IOD also goes up, but it would eliminate the need for OPG to borrow at a higher cost than the Province's borrowing cost.
>>
>> OPG apparently indicated on the call that they could increase their dividend to offset some of the cash that we're providing, which, on the surface would reduce our borrowing requirements and thus lessen IOD, but OPG would need to find the cash from somewhere else, so their interest costs would go up, reducing their earnings and hitting the fiscal plan that way. Since our cost of borrowing is lower than theirs, I'm not sure having them send us money makes fiscal sense. And, of course, hanging over this whole discussion is that OPG needs over $10 billion over the coming years to finance the Darlington refurbishment.
>>
>> Happy to discuss further at your convenience.
>>
>> Gadi
>>
>>
>>
>> From: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>> Sent: Wednesday, February 15, 2017 6:09 PM
>> To: Gadi Mayman
>> Cc: Lynsey Wynberg; 'Veinot, Cindy (TBS)'; Ronald Kwan
>> Subject: FW: Call with OPG
>>
>>
>> Hi Gadi
>>
>> As discussed pls find a quick summary of our call with OPG. I understand that you will be passing this on to Scott. Cindy, you may wish to so to Helen as well.
>>
>>
>> As requested by OPG, Cindy and I just finished a conference call with them. OPG is of the opinion that OEFC lending the full amount to either OPG or the Trust will seriously jeopardize the OPG's GBE status.
>>
>> In order to maintain the status they propose;
>>
>> That funding from the Province be limited to 49% of the amount required by the Trust and be in the form of an equity injection from the Province. An equity injunction means that the Province's net debt is not impacted since the increase in total debt is offset by an equivalent increase in the investment in OPG.
>>
>> OPG also asserted that the balance 51% has to be from an outside lender in order to preserve OPG's GBE status.
>>
>> Another reason for OPG also preferring the equity option instead of the Province lending the 49% is that they believe incorporating so much debt in their balance sheet with no offsetting income to service the debt will jeopardize their credit rating and impact OPG's "going concern" concept.
>>
>> From the Province's perspective there will be a material impact to IOD.
>>
>> John Lee indicates that OPG can in fact increase dividends to offset the cash impact of the increased IOD, but that doesn't help from a fiscal perspective. Unless OPG's net income increases and I am not sure that is possible since setting up the Trust does not contribute to net income, IOD and consequently the fiscal plan will be impacted fairly substantially as the equity injection ramps up.
>>
>> I indicated to John that I will run this by you and get back to him tomorrow, but given the possible fiscal impact, not sure how doable this is.
>>
>> Thanks
>>
>> Ken k

>>
>> ________________________________
>>

From:	Thompson, Scott (MOF)
To:	Gadi Mayman
Cc:	David McLean (MOF); Ronald Kwan; Ken Kandeepan; Lynsey Wynberg; Scott Nelms (ENERGY); Nancy Kennedy (MOHLTC)
Subject:	Re: Call with OPG
Date:	Wednesday, February 15, 2017 7:52:49 PM

Yikes. Not what we were hoping for that's for sure.
Thanks
Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Gadi Mayman
Sent: Wednesday, February 15, 2017 6:59 PM
To: Thompson, Scott (MOF)
Cc: McLean, David (MOF); Kwan, Ronald (OFA); Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Nelms, Scott (ENERGY); Kennedy, Nancy (MOF)
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To: Scott Nelms (ENERGY)
Cc: Ken Kandeepan; Ronald Kwan; Scott Thompson (CAB); David McLean (MOF); Lynsey Wynberg; Nancy Kennedy (MOHLTC)
Subject: Re: Call with OPG
Date: Wednesday, February 15, 2017 11:44:13 PM

It's an interesting construct. I assume in this structure that the loan from OPG to the Trust has to be subordinated to the 3rd party loans, because if they rank equal to each other, or pari-passu to use the legal term, wouldn't the third party lenders have to be totally reliant on the legislation to ensure that they'd be fully repaid, rather than relying on OPG taking the first 49 per cent of the loss?

Subordinated loans usually carry a higher interest rate than those that are more senior to them, but to make the model work as it's currently structured, the interest rate cap on the total amount borrowed is 5 per cent. If interest rates rise, or the third party lenders require a larger spread, and the third party loans are at a rate higher than 5 per cent, the interest rate on the loan from OPG would have to be lower than that of the third party. This might raise eyebrows, and, more importantly, might have OPG's auditors demanding a write down of the amount of the present value of the implicit subsidy of the interest rate on the loan, wouldn't it?

> On Feb 15, 2017, at 10:50 PM, Nelms, Scott (ENERGY) <Scott.Nelms@ontario.ca> wrote:
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>>> Subject: Re: Call with OPG
>>>
>>> I agree. It would be a direct cost to ratepayers. There is a 5 percent cost of capital assumption embedded in the model, so we would want to get as close as possible to that (or less) on an all in basis. Not sure if that is feasible with 50 percent equity.
>>>
>>> We can confirm with OPG what is being assumed - last I heard they needed some amount of potential for profit (but it can be small) in order to meet the test to consolidate the Trust to OPG's financials.
>>>
>>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>>> Original Message
>>> From: Gadi Mayman
>>> Sent: Wednesday, February 15, 2017 8:46 PM
>>> To: Nelms, Scott (ENERGY); Thompson, Scott (MOF)
>>> Cc: McLean, David (MOF); Kwan, Ronald (OFA); Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Kennedy, Nancy (MOF)
>>> Subject: Re: Call with OPG
>>>
>>>
>>> I'd think, off the top of my head, but would be happy to be corrected by the accountants, that any ROE would be a one-for-one hit to the ratepayer for every dollar we give to the fiscal plan. I'm not sure how that would be explained to ratepayers: you're paying interest to private investors and a return on equity to the Province so that your bill is lower now, but will be higher later?
>>>
>>> Original Message
>>> From: Nelms, Scott (ENERGY)
>>> Sent: Wednesday, February 15, 2017 8:19 PM
>>> To: Gadi Mayman; Scott Thompson (CAB)
>>> Cc: David McLean (MOF); Ronald Kwan; Ken Kandeepan; Lynsey Wynberg; Nancy Kennedy (MOHLTC)
>>> Subject: Re: Call with OPG
>>>
>>>
>>> Hi Gadi,
>>>
>>> Thanks for passing this along. We had been hearing from OPG that the equity thickness would be relatively modest. 49 percent is certainly a departure from that. We also heard that some sort of return on the equity would be required in order to meet accounting objectives (although based on the email chain below perhaps that has evolved).
>>>
>>> If an ROE is included, would that help to offset the fiscal downside that you describe? We have to be careful in adding materially to the cost to ratepayers, so will have to look at this tradeoff.
>>>
>>> Scott
>>>
>>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>>> From: Gadi Mayman
>>> Sent: Wednesday, February 15, 2017 6:59 PM
>>> To: Thompson, Scott (MOF)
>>> Cc: McLean, David (MOF); Kwan, Ronald (OFA); Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Nelms, Scott (ENERGY); Kennedy, Nancy (MOF)
>>> Subject: Fw: Call with OPG
>>>

>>>
>>> Hi Scott. In the roller coaster ride with whether the OPG solution for the GA works, we've just hit a pretty big bump, as you'll see from Ken's email below. I suggest that you scroll down and read that before carrying on with my email, as what I'm going to write next may be hard to follow without the context of Ken's email.
>>>
>>> If we inject equity in the quantity OPG Is suggesting, it should make it easier for them to borrow externally, although they'd have to sound out the market and find out whether they can, and, more importantly, at what additional cost relative to the Province's funding cost. It may require a provincial guarantee, which we used to give to the old Ontario Hydro, but I don't know whether that also is something that would affect their GBE status.
>>>
>>> Possibly of more significance is that IOD would rise substantially. If we make an equity contribution of half of the total amount they need for the GA, we'd have to borrow money without any offsetting earnings. It would start off in manageable amounts in the early years, but as the equity stake grows, the amount of interest does as well. In the scenario that Ron showed you this afternoon where interest made up up $30 billion of the total cost, about $15 billion in IOD would be added over the life of the option, if debt and equity are repaid at an equal pace to each other in the out years. Of course, if we discard this option and put this on the fiscal plan, IOD also goes up, but it would eliminate the need for OPG to borrow at a higher cost than the Province's borrowing cost.
>>>
>>> OPG apparently indicated on the call that they could increase their dividend to offset some of the cash that we're providing, which, on the surface would reduce our borrowing requirements and thus lessen IOD, but OPG would need to find the cash from somewhere else, so their interest costs would go up, reducing their earnings and hitting the fiscal plan that way. Since our cost of borrowing is lower than theirs, I'm not sure having them send us money makes fiscal sense. And, of course, hanging over this whole discussion is that OPG needs over $10 billion over the coming years to finance the Darlington refurbishment.
>>>
>>> Happy to discuss further at your convenience.
>>>
>>> Gadi
>>>
>>>
>>>
>>> From: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>>> Sent: Wednesday, February 15, 2017 6:09 PM
>>> To: Gadi Mayman
>>> Cc: Lynsey Wynberg; 'Veinot, Cindy (TBS)'; Ronald Kwan
>>> Subject: FW: Call with OPG
>>>
>>>
>>> Hi Gadi
>>>
>>> As discussed pls find a quick summary of our call with OPG. I understand that you will be passing this on to Scott. Cindy, you may wish to so to Helen as well.
>>>
>>>
>>> As requested by OPG, Cindy and I just finished a conference call with them. OPG is of the opinion that OEFC lending the full amount to either OPG or the Trust will seriously jeopardize the OPG's GBE status.
>>>
>>> In order to maintain the status they propose;
>>>
>>> That funding from the Province be limited to 49% of the amount required by the Trust and be in the form of an equity injection from the Province. An equity injunction means that the Province's net debt is not impacted since the increase in total debt is offset by an equivalent increase in the investment in OPG.
>>>
>>> OPG also asserted that the balance 51% has to be from an outside lender in order to preserve OPG's GBE status.
>>>
>>> Another reason for OPG also preferring the equity option instead of the Province lending the 49% is that they

believe incorporating so much debt in their balance sheet with no offsetting income to service the debt will jeopardize their credit rating and impact OPG’s “going concern” concept.
>>>
>>> From the Province’s perspective there will be a material impact to IOD.
>>>
>>> John Lee indicates that OPG can in fact increase dividends to offset the cash impact of the increased IOD, but that doesn’t help from a fiscal perspective. Unless OPG’s net income increases and I am not sure that is possible since setting up the Trust does not contribute to net income, IOD and consequently the fiscal plan will be impacted fairly substantially as the equity injection ramps up.
>>>
>>> I indicated to John that I will run this by you and get back to him tomorrow, but given the possible fiscal impact, not sure how doable this is.
>>>
>>> Thanks
>>>
>>> Ken k
>>>
>>> ________________________________
>>>

From: Gadi Mayman
To: Ken Kandeepan
Cc: Ronald Kwan; Lynsey Wynberg; Mike Manning; Gavin He
Subject: Re: EXTERNAL – RE: OEFC Funding of the Global Adjustment Deferral
Date: Wednesday, February 15, 2017 11:53:40 PM

Hmmm. If I understand this chain correctly, and I'm likely missing something important, would we have a non-regulated entity making hundreds of millions of dollars a year that the ratepayers ultimately have to cover in the future? Or would it be OPG, not the trust, making that profit from the interest on their loan to the trust, and if it's OPG making the profit, can't the OEB weigh in? If either's the case, it would be kind of contrary to the very robust language the government has been using about the OEB providing ratepayer protection with privatized electrical utilities.

On Feb 15, 2017, at 10:36 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> That's my understanding as well.
>
> Thanks
>
> Ken k
>
> On Feb 15, 2017, at 10:34 PM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
>
> > Hi. Ken, emails crossed. I agree, but it would mean OPG is not being regulated by the OEB on this.
> >
> > Ron
> >
> > On Feb 15, 2017, at 10:32 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
> >
> > > No, I was informed by OPCD that IESO will set up the reg asset as you point out but will promptly sell same to the Trust. So the expectation is that at the end of each fiscal year the reg asset set up in that year would be sold to the OPG Trust.
> > >
> > > Thanks
> > >
> > > Ken k
> > >
> > > On Feb 15, 2017, at 10:27 PM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
> > >
> > > > Hi,

I may be wrong on this, so correct me if so, as I have not been at the accounting meetings on this structure.

But, based on the Energy submission, I took it as IESO would have the regulatory asset. As such, I took it that the Trust would be outside of OPG's OEB regulated entity.

Ron

On Feb 15, 2017, at 10:21 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

> First getting it past their auditors will be a challenge, as you've said, and secondly getting the OEB to accept that OPG should be earning the extra $750 million per year that we'd need at the peak of the debt accumulation will be even more challenging. It would have to be a hit to ratepayers. That would be even harder to explain than a hit to them from an ROE to the Province, which, as you've seen, I've had trouble wrapping my mind around in earlier emails.
>
> On Feb 15, 2017, at 10:11 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
>> Not entirely, though the underlying concept is similar. This is just logical speculation on my part but what John is probably driving at is the Trust pays OPG the interest but instead of

expensing same it's capitalized.

As such when the Trust is consolidated with OPG the interest income remains in OPG's books since there is no expense to offset it in the books of the Trust.

Ergo, OPG has a net interest income which all else being equal increases its net income, which in turn when consolidated with Province, provides the required fiscal offset to the increase in the Province's IOD.

The problem here would be how willing OPG's auditors will be in recognizing an interest income on OPG books that will be paid in about 15 years time and that too on a piecemeal basis.

Having said all of this let me repeat I may be quite mistaken and John may have a more feasible solution in mind.

Thanks

Ken k

On Feb 15, 2017, at 9:36 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

Sounds to me that they're going where Scott Nelms alluded to in his email with an ROE for the Province that would offset our borrowing cost?

Adding Ron and Mike so that all of us at the OFA are aware of the same facts, as this is moving quickly, and any of us may be asked at any time about it, including on Friday when you and I are away, Ken.

Gadi

From: Ken Kandeepan
Sent: Wednesday, February 15, 2017 9:19 PM
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: Fwd: EXTERNAL – RE: OEFC Funding of the Global Adjustment Deferral

Hi
Gadi

My
exchange
with
John,
as you
can see
little
short
on the
details.

Thanks

Ken k

Begin
forwarded
message:

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

Date:
February
15,
2017
at
6:36:48
PM
EST

To:
LEE
John
-
TREASURY
<john.s.lee@opg.com>

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 â€“ 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

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Original
Message-
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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

Kenk

- - - - - 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

Kenk

Original Message-
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-

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

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Original
Message-
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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

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Original
Message-
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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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