

RE: Rate Mitigation - Cabinet Submission + Major Projects Deck

From: Ronald Kwan <ronald.kwan@ofina.on.ca>
To: "Thompson, Scott (MOF)" <scott.thompson@ontario.ca>, "Mayman, Gadi (OFA)" <gadi.mayman@ofina.on.ca>
Cc: "McLean, David (MOF)" <david.mclean@ontario.ca>, "Chaput, Brandon (MOF)" <brandon.chaput@ontario.ca>
Date: Tue, 28 Feb 2017 05:59:03 -0500
Attachments: Electricity Mitigation Options - GA (Interest) Analysis (2017-02-22(26) deck) v2_PW.docx (45.06 kB)

Hi Scott, Gadi,

Staff had also been working on different financing cost sensitivities on the version of the GA options from last Thursday.

The preliminary analysis, as attached, shows the extreme sensitivity to actual borrowing rates. (Energy PW.)

Compared to the 5% base case interest rate, with cumulative interest costs of about \$35.5 Bn, for a 25 basis points (bps) increase (0.25%), the cumulative interest cost over 30 years could increase by about \$4.7 Bn over that period. And for a 50 bps increase, by about \$7 Bn (or about 20%) over the 30 years.

At a 3.5% cost of financing (about the current long-term Provincial borrowing cost), the cumulative interest cost would be about \$18.4 Bn, or about \$17.1 Bn below the 5% base case (or about \$10.1 Bn lower than at a 4.5% rate).

Note that this sensitivity analysis just changes that one parameter value, not the GA amounts. To keep the same amortisation period to pay off the deferred GA balance amount, the GA payment profile would also have to change.

These sensitivity numbers will change as Energy revises modelling from its current 2.3% GA payment growth amounts for the post-2021 period, since that will decrease the deferred amount of GA and the cumulative debt and interest costs.

However, I thought it was illuminating how sensitive the cumulative interest amount is, and how sensitive the amount of potential incremental interest cost would be in the case of external debt, even at a modest spread (and about half externally financed).

Ron

From: Ronald Kwan
Sent: February-27-17 6:27 PM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Brandon Chaput (MOF) <Brandon.Chaput@ontario.ca>
Subject: FW: Rate Mitigation - Cabinet Submission + Major Projects Deck

Hi Scott, Gadi,

My apologies, I thought I had sent a revised staff BN on Energy's deck in advance of the meeting Sunday. It's now dated with the new deck from last night, but here it is, should it be still of some use.

Staff had also received a draft TB assessment note on Sunday, which is also now dated, as the Minute no longer tracks the new timelines. It had used some information from an earlier version of the internal BN.

Ron

Begin forwarded message:

From: "McLean, David (MOF)" <David.McLean@ontario.ca>
To: "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>, "Ronald Kwan" <Ronald.Kwan@ofina.on.ca>, "Tim Schuurman (MOF)" <Tim.Schuurman@ontario.ca>
Cc: "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>
Subject: Fw: Rate Mitigation - Cabinet Submission + Major Projects Deck

Energy's MPC deck attached

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Katona, Keley (ENERGY) <Keley.Katona@ontario.ca>
Sent: Wednesday, February 22, 2017 9:20 PM
To: Bromm, William (CAB); Kwamena, Boafoa (CAB); Foster, Robert (CAB)
Cc: MacIntyre, Kyle (TBS); McLean, David (MOF)
Subject: Rate Mitigation - Cabinet Submission + Major Projects Deck

Hi,
Attached is the deck for Major Projects tomorrow (shorter deck) as well as the revised Cabinet submission. Understand the focus of tomorrow's discussion will be on the GA piece.
We will bring copies to Major Projects.
Keley

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