RE: IOD and budget and GA refinancing

From: Ken Kandeepan <ken.kandeepan@ofina.on.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Cc: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>, John Psinas <john.psinas@ofina.on.ca>
Date: Tue, 18 Apr 2017 16:37:55 -0400

Thanks Cindy, will let Kim know re these issues.

With regard to equity injection, John is part of the working group and keeps me appraised, as expected there are number of outstanding issues. These include the share price of the new shares to be issued by OPG, potential return on the equity injection, the possibility of OPG issuing preference as opposed to common shares (the former guarantees a return to the Province as well as providing an specific offset to the Province's incremental IOD), bridge financing arrangements for OPG, etc.

Will keep you appraised as we move along and solutions or options are identified.

Thanks

Ken k

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Tuesday, April 18, 2017 11:55 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: IOD and budget and GA refinancing

Thanks Ken – have you shared the issues below with Kim Marshall? She and KPMG should review the first two in detail. We had a long discussion at the meeting yesterday re: the cash flow needed in OPG re: interest income, and this is related to the first issue, albeit different because the OEB will presumably permit the IESO to recover interest, so it would be able to record interest without receiving cash. I assume the value of the asset sold to OPG would take into consideration this future cash flow stream. On the second issue, I don't know if the true-up provision as drafted is comprehensive enough to cover this off.

The last one is an issue for all of us.

On an unrelated note, are you working on the structure for the equity injections into OPG (e.g. how much and when, the terms of the shares, the value of the shares, dividend features, etc.)?

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: April-18-17 10:24 AM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); John Psinas
Subject: RE: IOD and budget and GA refinancing

Hi Cindy

Hope the meeting yesterday afternoon went well, we just finished a call with IESO re their need for short term funding to carry the regulatory asset both in terms of the time lag from setting it up and the subsequent purchase by the Trust plus to fund potential delays on the part of the Trust due to arising from market access.

Few issues that came up:

- Most likely IESO will fund the time lag between setting up the regulatory asset and the Trust

purchasing same with a credit facility from the Province. Assuming that all interest costs are capitalized, any interest costs incurred by IESO should be included in the value of the regulatory asset. Otherwise on a consolidated basis the Province will be impacted. Should this be included in the legislation?
- Is there an annual tru-up provision for IESO, where the outstanding regulatory asset at the end of the fiscal will be revalued with all of the variances over the year plus the interest costs incurred in the year for the purpose of carrying said assets.
- Finally, given the time lag IESO may have a regulatory asset on its books at year-end. AG may have some issues on presenting this asset in the PA.

Thanks

Ken K

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Monday, April 17, 2017 12:28 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Subject: RE: IOD and budget and GA refinancing

Thanks Ken – the issue below is why I asked.

Cindy

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: April-17-17 12:24 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: RE: IOD and budget and GA refinancing

Hi Cindy

Yes, we have included the additional borrowing required for the equity injection in the Financing Table and the incremental IOD is reflected in the IOD numbers for 17-18 and the two out years presented in the Budget.

As an FYI, if you remember the accounting model, the intention is for the province to be fiscally whole with the incremental IOD being offset by a higher OPG net income where the increase equals the Province's IOD impact.

This is a good segue into the issue that I wanted to raise; as you pointed out this morning the interest on the regulatory/intangible assets is not adequately addressed in the draft legislation. The way I understand it, the Trust and by extension OPG remains fiscally whole by the regulatory/intangible asset being defined as consisting of two components:

- The cumulative GA relief to ratepayers plus
- The interest accrued on the cumulative debt incurred to finance the purchase of the asset by the Trust from IESO.

In essence the Trust borrows each year an amount that is equal to the GA relief provided to the ratepayer plus the interest payable on the debt accrued to date to finance the purchase of the asset from IESO. The cash inflow from the latter portion of the debt is used to make the interest payments to the bondholders and OPG for respectively the 51% and 49% of the debt.

The draft legislation may not need to cover the mechanics of how the interest can be recovered in the first half of the GA smoothing it maybe useful for a definition of the regulatory/intangible asset that includes the above two components to be enshrined in the legislation.

I don't believe that is the case currently.

Thanks

Ken K

-----Original Message-----
From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Monday, April 17, 2017 11:00 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Subject: IOD and budget and GA refinancing

Ken. Has an increased IOD been included in the budget re the equity financing to OPG?

Thanks

Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.

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