SEC Interrogatory #110

Interrogatory

Reference: D3-1-2, 2; D3-1-2, Attachment 1

With respect to the 700 University Workplace Transformation Project:

a. Please provide a detailed breakdown of the full costs of the project.
b. What is the total cost of the project, including amounts funded by way of the tenant inducement allowance?
c. [Attach 1, p.2] Each of the 3 options includes a NPV calculation. Please provide the full underlying NPV calculations including all assumptions made.

Response

a) Refer to Ex. L-D3-01-Energy Probe-047.

b) The total cost of the project is $20.9M, as set out at Ex. D3-1-2, Tab 1, Schedule 2, Table 1a, line 3, which includes amounts funded by way of the tenant inducement allowance.

In preparing this response, OPG noted that, in error, the operating costs for the business plan period is not net of the annual impact of the tenant inducement allowance received in accordance with the lease agreement for 700 University Avenue. OPG will reflect a corresponding reduction in the proposed operating costs of approximately $0.9M per applicable year in preparing the draft payment amounts order.

c) The underlying net present value calculation for each option – as described in Ex. D3-1-2, Attachment 1, p. 2 – is as follows:

Chart 1: Net Present Value Calculation for 700 University Workplace Transformation Options

Calculation	Net Present Value ($M)[1]
Option 1: Occupy the 18th and 19th Floors under a Free Address Model	
Savings from releasing remaining floors	22.1
Receipt of tenant inducement allowance	7.4
Capital expenditures to convert 18th and 19th floors to agile workspaces with free address model	(19.7)
Total Net Present Value – Option 1	**9.8**

Option 2: Occupy Half of the 9th Floor, 18th and 19th Floors under a Fixed Address Model	
Savings from releasing remaining floors	18.9
Receipt of tenant inducement allowance	7.4
Capital expenditures to modify 9th, 18th, 19th floors to accommodate personnel from released floors	(18.5)
Total Net Present Value – Option 2	**7.8**
Option 3: Do Nothing	
Receipt of tenant inducement allowance	7.4
Expenditures to meet baseline workstation requirements	(0.8)
Total Net Present Value – Option 3	**6.6**

[1]These net present values are net of tax and were calculated as of mid-2018.

The following assumptions were made in calculating the net present value for each option:

- Options 1 and 2 estimated that OPG would exit the lower concourse of the building midway in 2019 and the 17th floor in 2020.
- Option 1 estimated that OPG would also exit the 9th floor entirely in 2021, whereas option 2 assumed the company would only exit half of the 9th floor.
- Savings are realized each year over the remaining lease term from reduced leasing footprint under options 1 and 2 (base rent and operating costs).
- The need to incur costs to replace aged workstations to meet baseline requirements under option 3.
- Discount rate of 9% (since OPG's Head Office is not a prescribed facility).
- Income tax rate of 25%.
- Capital expenditures incurred under options 1 and 2 were categorized as class 13 in calculating the tax shield on CCA.