MEMO

Date:

To: Glenn Thibeault, Minister of Energy

<u>Re: Fair Hydro Plan Impact on IESO Accounting Practices</u>

The accounting opinion issued by KPMG to the Independent Electricity System Operator (IESO), entitled *An Accounting Opinion on the Application of PSAS to the Consolidation of a Trust and to the Recognition and Derecognition of a Variance Account in Relation to the Proposed Ontario Fair Hydro Plan Act, 2017* indicates that the accounting practices and structures proposed in the Fair Hydro Act, 2017 are consistent and compatible with the IESO's current financial accounting practices. As a result, the IESO can recognize a regulatory asset related to the variance account created by the proposed Act, and that the regulatory asset will no longer be included in IESO financial statements upon transfer of the variance account to the OPG special purpose vehicle (SPV) entity.

Based on the 11 indicators of control as defined in Section PS 1300 *Government Reporting Entity*, there is no evidence of control by the IESO for the OPG SPV entity either collectively or individually. The IESO will not have the power to govern the entity, nor have ongoing access to the entity's assets. The IESO will also not have any voting shares or future rights to the special purpose vehicle (SPV) entity nor the power to dissolve the entity. Without control, the entity is not subject to consolidation within the IESO financial statements.

The variance account created by the proposed legislation is subject to rate regulation by the Ontario Energy Board (OEB) and the variance account will be established with the right to collect funds against the variance amount in the future. In these circumstances, the IESO is able to establish a regulated asset, in accordance with Canadian public sector accounting standards.

Sincerely,

Bruce Campbell

[Title]