RE: Rate Mitigation Implementation Meeting - March 23, 2017

From: "Hosick, Sarah (TBS)" <"/o=govon/ou=exchange administrative group (fydibohf23spdlt)/cn=recipients/cn=hosick, sarah (tbs)">
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Fri, 24 Mar 2017 17:13:38 -0400

Thanks!

From: Veinot, Cindy (TBS)
Sent: March-24-17 5:13 PM
To: Hosick, Sarah (TBS)
Subject: FW: Rate Mitigation Implementation Meeting - March 23, 2017

She forgot to copy you – its attached in this message

From: Petsche, Nadine (TBS)
Sent: March-24-17 5:07 PM
To: Veinot, Cindy (TBS)
Subject: Rate Mitigation Implementation Meeting - March 23, 2017

Rate Mitigation Implementation Meeting
March 23, 2017
Summary (from the notes of Nadine Petsche)

Key Highlights:
From OPCD's perspective, the key issues outstanding include:

- Need to identify OEB's role in relation to the asset to achieve rate regulated accounting on the IESO's books
- OEB's preference is to rely on existing process
- From lender's perspective, role of OEB should not create risk w.r.t. recoverability
- What covenants will lenders need
- What expectations will there be on the OFA to be the primary lender (comments made by OPG regarding accounting risk)
- The need to ensure a timely settlement of the transaction between the IESO and OPG to minimize the amount of RRA on the IESO's books at month end/year-end

May 1st timing for LRC

May 1st timing also for TB Report back (with expectation that EY and KPMG may be expected to speak – will they have had sufficient time to assess legislation and provide opinions?)
Audit Risk – only item impacting 16/17 is the Affordability Fund Trust. The AG can receive a briefing on the Trust. GAM not yet completed, so only CAB level details could likely be discussed. Copies of OPG whitepaper and IESO/KPMG memo provided as part of CAB materials.

Specific items discussed:
GA Refinancing

- Blakes and Legal Services Branch provided a review of the status of legislative drafting
  - Blakes provided an overview of messaging for the initiative that satisfied it being categorized as a regulatory program (which was considered adequate to meet any potential future challenge)
  - Serge noted that there is also an engineering study underway to corroborate the extended service lives of the assets beyond the term of the current contracts (commented that the generators expect the asset lives to be 30-35 years)
  - Mention made to potential changes to nuclear asset lives resulting from refurb activities which may impact the GA in the future as well

- The quality of the asset w.r.t. collectability was discussed
    - A question was raised regarding recoverability specifics and linking the rate to consumption (the need for traceability)
    - Reference was made to legislation in other jurisdictions and 2nd tier legislative issues that are also being addressed
    - There was a question about the timing for the transactions between the IESO and OPG regarding the asset purchase. All parties seemed to agree that it would be on a very tight schedule (hours/days).

- OPG Update
    - John Lee commented on cash flows and the need for lenders to be sure that cash flows will be sufficient to serve the debt. He noted that OPG had initiated an assessment of lender needs for covenants, etc. and the potential market capacity and bond ratings were being assessed.
    - Ken Hartwick mentioned a question on accounting related to the % investment in the Trust by OPG and on-going assessment of impact (suggested it may 'trip the accounting'. The comment was made in reference to a legal letter that had been received.
    - Ken also advised that OPG had established a special Board Committee.
- IESO Update
    - There was acknowledgement that a rate regulated asset had to be established, but that the role of the OEB had not yet been identified
    - Kim Marshal advised of changes approved by the IESO Board related to reporting changes and recognition of rate regulated balances. KPMG had prepared a paper on rate regulated accounting and the Board had been receptive.
    - With regards to the ability to report a rate regulated asset, Kim noted that the language in the legislation will be critical to the accounting analysis, including the OEB role. She was pleased about Blake's reference to the initiative meeting the criteria for a regulatory program and a regulated rate.
    - Dealing with some legal issues related to the proposed changes now
    - Will have to engage with the OFA on their on-going relationship
    - Kim also identified the need to avoid any risk of change to the asset balance (recoverability)
- OEB Update
    - The role of the OEB is yet to be determined and will be key to supporting recognition of a rate regulated asset
    - Further discussions as the mechanics get clearer, including how the mechanism might input into the OEB's forecasting exercise. OEB envisioned to have the right to audit, but would otherwise likely be a light handed role.
    - OEB would like to rely on existing processes as much as possible in considering what role it may have for the GAM.

Affordability Fund Trust

- LSB advised that agreements were to be finalized and signed by Computershare on March 23rd

Tax measures

- RRRP, OESP and FN ICI (ESPD)
- Not specific issues identified. Work continues. See attached table for further details.

Other

- Discussion of report backs and timing to LRC and Cabinet
- Apr. 17 pens down date for draft legislation
- May 1st LRC and TB Report back (Accounting firms may be asked to present)
- May 4th Leg intro to House
- Tracking of specific items noted in table
- Auditor General will be provided with a copy of the Cabinet submission and appendix. Has requested a briefing.