Re: Price Mitigation & Accounting Meeting

From: "Kennedy, Nancy (MOF)" <nancy.kennedy@ontario.ca>
To: "Kwan, Ronald (OFA)" <ronald.kwan@ofina.on.ca>, "Thompson, Scott (MOF)" <scott.thompson@ontario.ca>, "Mayman, Gadi (OFA)" <gadi.mayman@ofina.on.ca>
Date: Sat, 21 Jan 2017 09:15:37 -0500

Thanks Ron.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Ronald Kwan
Sent: Friday, January 20, 2017 11:39 PM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA); Kennedy, Nancy (MOF)
Subject: Price Mitigation & Accounting Meeting

Hi Scott, Gadi, Nancy,

Steen organised a meeting this afternoon with OPCD, IESO and KPMG, as well as various government / OPS staff.

Steen had asked me to talk about the OEFC and DRC, as he had said that some folks were under the impression that OEFC and the DRC could be a model that could be useful for a structure for the GA option.

I explained at the meeting that OEFC was not a rate regulated entity and does not have regulatory assets, and that it's consolidated into Public Accounts such that its shortfalls in revenues vs expense negatively affect the Province's bottom line. I noted that was the case when OEFC did not recover its full NUG contract costs and when it funded the 2002 price freeze. I noted that even with the current structure with legislative cost recovery of NUG costs since 2005, OEFC still records the NUG contract-related expenses and revenues, and if they were ever different there would be a bottomline impact.

Steen was aware of that, but just wanted to have that recounted and move on in the meeting to look at another potential structure/option.

There was also a brief mention of the LDC option; however, it seemed to have been discussed earlier with KPMG and Pelino (who was there as an external consultant supporting KPMG it seemed) and the view was it was not a viable option, as it would destroy LDC balance sheets by adding too much debt to them relative to their balance sheets. It was also viewed as an option that would take too long to put in place, though there was a feeling that the desired accounting would work in this structure.

Most of the discussion was on how the IESO records the regulated price plan (RPP) variances. Note that in any given period the inflows from RPP customers for electricity does vary from the outflows to pay for the power -- since RPP prices are set every six months to recover costs on a forecast basis, and actuals differ from forecasts, there's a variance. The IESO has a credit facility from the OFA that it can access to cover balances, though the variances are small and short-term compared to the amounts under discussion in the GA option.

The meeting ran long. There was going to be further discussions amongst the accountants from OPCD, IESO and KPMG on how the IESO records the RPP. It wasn't clear if the RPP case would work in the case of the GA option such that there would not be a bottomline impact.

There was also a brief aside from KPMG and Pelino on how the accounting would work if a third party financial institution got in the middle of this, which was thought to be feasible from a procurement perspective, but way more costly than a government financing of the deferral. As such, folks dismissed this option at the meeting , but I wanted to mention it should it be brought up again. I would think Gadi might have some views on such an option.

I'm not sure if Energy will hold another multi-party meeting or if it will meet just with the various accountants as it prepares to report in to FPC next week.

If I do hear more in the interim, I'll provide an update.

Ron
