KPMG Opinion

Proposed New Conservation Program

From: Terry Gabriele [mailto:Terry.Gabriele@powerauthority.on.ca]
Sent: October-31-13 9:20 AM
To: Chan, David (ENERGY)
Subject: KPMG Position on Delayed Recovery of Conservation Expenditures

David,

With qualification, KPMG's position is stated below.

Terry Gabriele
Director, Finance
Ontario Power Authority
416 969 6006

From: Travers, Kevin M [mailto:ktravers@kpmg.ca]
Sent: Wednesday, October 30, 2013 2:50 PM
To: Terry Gabriele
Subject:

Hi Terry

As per our conversation yesterday, the following summarizes our thoughts based on the discussions that we have had regarding potential changes to the funding of the Conservation Program administered by the Ontario Power Authority.

The following comments are based entirely on the facts and circumstances as presented by yourself during these discussions.

The current accounting for the costs incurred by the Ontario Power Authority ("OPA") results in an effective "offset" of any statement of operations impact of the program since the OPA acts entirely as an agent of the Province of Ontario in these transactions, incurring costs and being reimbursed the following month by the IESO through the Global Adjustment Mechanism ("GAM"). The timing of the reimbursement, which is guaranteed by legislation, is generally one month following the incurring of the expenditure, hence there has usually been a receivable (a financial asset) presented on the balance sheet of the OPA related to the previous month expenditures. The collection of this amount has never been at issue and as noted above, is guaranteed through legislation.

The proposed changes to the program would see the costs "financed" through a loan (say, from the Ontario Energy Finance Corporation "OEFC"). This would obviously result in a credit to long term payable (paid over the term of the financing arrangement which is TBD but could be based on the expected duration of the useful life of the object of the conservation expenditure). The repayment of the loan would be financed through the GAM similar to the current system although would be smoothed out to reflect the loan repayment schedule.

The expected accounting for the amount receivable would be similar to the current system, i.e. a financial asset recorded to reflect the future recovery of these costs when incurred, except that the amount would be drawn down at the same rate as the related financing. This result, however, might not be achieved if the interest component of the financing is not recovered through the same process, i.e. if the interest cost on the financing was the responsibility of the OPA and the rationale for this is that at that point, there is doubt as to whether the OPA is continuing to act as an agent of the Province of Ontario. If such doubt were to be considered pervasive, it is possible that an accounting treatment whereby each conservation related expenditure was expensed by the OPA (with no balance sheet treatment) and the related recovery would be shown as revenue WHEN received.

I would be happy to discuss the above comments to ensure clarity in our understanding should you wish. If there are any further developments related to the proposed changes, please keep us apprised.

Best regards,

Kevin

Kevin M. Travers, CPA, CA, BBA

Partner, Audit

KPMG LLP

4100 Yonge St, Suite 200

Toronto, ON M2P 2H3

T 416 228 7004

M 416 452 5106

F 416 224 4671

ktravers@kpmg.ca