Discussion Notes - GA (meetings of Apr 17/17)

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All,

Please find below a summary of yesterday's call (involving OPCD, OPG, IESO, OFA, EY, KPMG) as well as highlights from yesterday afternoon's meeting to review draft legislation. Please advise of any corrections/additions. Nadine

Morning call:

Purpose: to discuss status and key actions related to accounting for OPG and IESO.

Highlights:

- Consensus that additional clarity needed on financing and accounting impacts of deferred interest recovery from ratepayers. OFA to lead update of accounting model to help clarify accounting and cash flow impacts on the various parties, both during the initial deferral period (10 years) and the beginning of the recovery period. The intent, as clarified by OFA, is that the OPG Trust would not have a cash flow impact, despite the fact that the clean energy adjustment does not start until 2022.
- OPG accounting considerations -- In order for OPG to defend accounting for the intangible asset, it must be able to demonstrate variability of returns (to demonstrate risk of return +/-). It is important that OPG has the authority to determine the chargeback in order to avoid being assessed as an 'agent' only. Dealers are also interested in clarification of respective roles and risk of ability for others to impact some of the factors relevant to the recovery plan.
- OFA and OPG collaborating on appropriate government guarantee (contingent guarantee) that could be presented to

the debt holders for consideration. There needs to be more specificity in the documentation. Intention is to safeguard bondholders against decisions of future governments. The contingent nature of the guarantee is not expected to have a significant impact on the accounting analysis of OPG or IESO.

- IESO – enhanced clarification w.r.t. sale of the regulatory asset desired, including acknowledgement that the IESO would not retain any risks or rewards of ownership (i.e. bad debt risk which is passed to the LDCs and customers under sec.22). IESO also addressing how a short-term asset might be accounted for on the books of the entity (i.e. 3-6 months), where the Trust is not able to purchase. Market disruption scenario also under assessment. IESO debt should not be subordinate to other debt holders.
- All agreed that the document's overview of the role of the OEB was helpful.
- Next steps – OPG will plan to share a draft of its 'fact' representation by Tuesday pm. In lieu of a draft sale agreement between IESO and OPG, the document will be helpful for IESO's accounting analysis. Additional input from the broader group is requested to ensure a robust and consistent statement of facts that can serve as the basis for accounting analysis. Revised draft will be shared by OPG with the MOE, and will also serve to ensure alignment of details in leg and regs, and other related docs.
- E&Y suggested that the use of the 'delegate' term should be further defined and considered to ensure that it does not unintentionally undermine the intended accounting treatment.

<u>Afternoon Legislative Review:</u>

Purpose: To review draft legislation (led by MOE with representation from key internal and external stakeholders).

<u>Highlights:</u>

- Details of legislation will continue to evolve, to be followed by draft regulations.
- Principles (sec. 8) discussed. Blakes commented that next draft leg will provide greater certainty to the Principles.
- Implementation (sec 8.2) need to understand how the application to the IESO would impact the organization's recovery rights.
- Certainty w.r.t. recoverable amounts envisioned to be provided through regulations. Cabinet decisions in regulations

would also take into account the amount of overpayments, the details of which are not expected to be made publicly available.

- IESO highlighted the need to maintain a right to recover funding shortfalls as well as the transfer of any rights to recover and related obligations upon sale of the regulatory asset to the OPG Trust
- OPG advised that intended accounting treatment as an intangible asset would require sufficient cash flow to pay interest on debt. Parties agreed that additional consideration need to be given to meeting this requirement. OPG reminded participants that this requirement was clearly stated in the original whitepaper, and that the Trust cannot accrue interest income as an intangible asset.
- Blake's clarified that reference to the FP being cost-effective is intended rather to state that the FP should be cost-efficient.
- From a practical perspective, a suggestion was made that the interest charge could be included as part of the servicing adjustment to the IESO as a contractual arrangement, and that it could be added to the shortfall of amounts that would be recoverable from ratepayers.
- Discussion on possible market disruption guarantee, in addition to provincial guarantee to address potential change in FAP resulting from a change in governments. Additional consideration required.
- Dealers raised potential concerns where deferred amounts might be funded by parties other than through the OPG Trust. Main concern appeared to be 'competing' for recovery amounts (e.g. where OFA might fund some of the regulatory assets). Clear desire to limit the existence of other investment asset owners, except in very limited, temporary situations.
- Alternative models for estimating cost recovery in each period, taking into account level of uncertainty regarding future interest rates and other factors, as well as potential implications for managing rates and cost recover 'below the curve'. One alternative would reflect deferred costs on a nominal basis, and adding administrative and financing costs in the period. This model differs from that applied by OPG and MOE to date. John Lee suggested that alternative models should be run in parallel to assess the varying impacts of each on rates.