(introduce policy rational, including role of OPG in debt markets and exercising discretion w.r.t. participation)

Introduction

Introduce policy rational -

Describe current state – cash expenditures recovered in current rates (current structure provides for a variance account that is settled within 12 months – so not immediate aka monthly but not long-term)

Describe the objective of the FEP – lower current cost to ratepayers by deferring the recovery of cash expenditures to future periods (for energy already consumed by ratepayers).

Commented [VC(1]: Let's use FHP – Fair Hydro Plan

Objective

Assess the impact of the FEP on the financial statements of the GRE.

Basis of Accounting

GRE – PSAS

OGOs – line-by-line consolidation – PSAS

GBEs – modified equity accounting – IFRS

Analysis (in general, IESO first, then standalone trust, then trust in GRE)

IESO is OGO (as at Dec/16), so impact on IESO will flow through to GRE (entity may change to GBE in future)

Describe role of IESO - market settlement mechanism

Describe initial impact of FEP on IESO – creates funding shortfall (for costs already incurred on energy already consumed by ratepayers)

IESO has concluded it can recognize the shortfall as a RRA (ref to GAAP hierarchy – relevance of US GAAP)

Describe general concept of RRA

IESO is an OGO – must follow PSAS in GRE

Discuss pros and cons of RRA recognition under PSAS

Show comparison of IESO JEs under both scenarios (RRA vs. no RRA)

I think we should include in this section some commentary on the fact that the Province's statements are currently impacted by RRA – through OPG and H1 (and that IFRS14 implies ref to USGAAP). Using RRA in IESO is not introducing a new concept into the financial statements of the Province if the substance of the RRA in IESO is similar to the substance of the RRAs in the two GBEs. One question to consider is whether there is substance to using a different accounting treatment in a commercial entity vs. a non-commercial entity. If OPG took on the role of settling the market, should we get a different answer (e.g. could have structured in a different way)

Commented [NP2]: RRA doesn't require consideration of commercial vs. non-commercial but rather that a portion of the business be rate regulated (and RRA can be created through legislation despite the AG's position)

Discuss need for funding of shortfall and proposed plan (sale of right to trust)

IESO has concluded that details of transaction would support sale treatment.

Discuss pros and cons of sale treatment

Assuming sale treatment, show comparison of IESO JEs under both scenarios (RRA vs. no RRA)

Impact of trust on GRE will depend on two things: (i) who controls the trust, and (ii) how transaction is reported in trust.

Assume, to start, that trust will apply IFRS (for province's CFS, OPG and H1 will be reflected on an IFRS basis, even though both entities will continue to report on a US GAAP basis)

OPG has concluded that trust will recognize intangible asset as a result of the purchase transaction.

Discuss pros and cons of sale treatment and recognition of intangible asset. – not sure what is going to be discussed here – what's the argument not to recognize an intangible asset in the stand-alone f/s of OPG?

Analysis of whether OPG taking on this role impacts is status as a GBE

Show JEs

OPG has concluded they control the trust (discretionary decision) and, therefore, will consolidate.

Commented [VC(3]: Nadine – not sure what you mean by discretionary?

As GBE, OPG is included in GRE using modified equity. Therefore, net assets of trust are included in GRE (investment in GBE).

Provide support for non-Provincial control of Trust and discuss pros and cons of control (include consideration as to whether Province could control if OPG doesn't).

Discuss 3020 issue if IESO cannot recognize RRA

Show comparison of JEs under both scenarios (modified equity via OPG vs. direct consolidation by GRE + sub-topics of RRA vs. no RRA).

Consider:

- Reference to OEB?
- Definition of an asset (at provincial level, not to be funded through tax base; ref to FAO's comments on mis-match of revenues and expenses as would be the case if RR accounting wasn't accepted – IASB discussions ongoing and recognizing the merits of RRA; see also OPG/Tory's docs.)
- Reference to PSAS consolidation requirements (no requirement for independence and no elimination of assets/liabs of consolidated orgs upon consolidation just because province controls OEB)
- Impacts if OPG no longer controls the trust
- Impacts if regulatory charge is challenged as unconstitutional and the government legislates the charge as a tax
- What is the impact of 3rd party financing provided on the strength of the ability to collect from future ratepayers (assuming the guarantee is narrowing defined)?
- There are indemnities being provided by the province to IESO and OPG – how do these impact the analysis? (Impact on Provincial control of Trust and/or sale of assets by IESO?)
- The AG issued a statement on May 24 at the Committee Hearings -- should address those views. We should have Hansard of the Q&As by the end of the week as well, which we should consider.
- The FAO issued their report this week – not sure there is anything in that document that we need to address in this memo.
- What triggers would cause reassessment of the accounting.