RE: Drafts of accounting memos

From: Ken Kandeepan <ken.kandeepan@ofina.on.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Mon, 08 May 2017 08:29:38 -0400

Yes, I will be there Cindy, maybe we can take a few minutes when its finished at 4 PM to have a quick discussion.

Ken k

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Monday, May 08, 2017 8:25 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Drafts of accounting memos

Thanks Ken – let's find a time to discuss – are you at the rating agency meeting this afternoon?

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: May-07-17 10:51 AM
To: Veinot, Cindy (TBS)
Subject: RE: Drafts of accounting memos

Hi Cindy

Thanks for forwarding these, I have a few comments as follows.

Happy to discuss.

Thanks

Ken K

General Comments - OPG Accounting Considerations

The paper is very OPG centric with little or no acknowledgement of the role of the other participants in the Fair Hydro Plan. It appears that OPG intends to change a performance fee and management fee as the Financial Service manager. While the latter is reasonable since the Trust will most likely leverage existing OPG resources for front and back office functions, a performance fee will only add to the value of the regulatory asset to be repaid by future ratepayers.

The performance fee appears to be based on OPG beating a pre-set benchmark cost of borrowing for the Trust. I am not sure that ratepayers should be on the hook for this, if OPG beats the benchmark the benefits should be passed on to the ratepayers not retained by the company. The reward for performance exceeding the benchmark should be limited to the compensation of OPG/Trust trading floor staff and be part of the overall management fee OPG charges for managing the Trust. The role of the Financial Services Manager should not be conflated by OPG with managing a mutual or hedge fund where gains from beating a benchmark accrue to the managing entity. Plus this also raises the question of who sets the benchmark.

The overall concept should be of fiscal neutrality, where the Trust capitalizes the actual interest incurred annually plus a reasonable administration fee paid to OPG. This will ensure that future ratepayers are not overly burdened.

Specific Comments

- Page 1 second bullet; as mentioned above rewards for performance should be limited to compensation for trading floor staff, not a performance fee for OPG, adopting the former will result in a substantially lower impact to ratepayers when compared to the latter.
- Page 2 last bullet: If the role of Financial Service Manager is taken away from OPG and given to another entity wouldn't it make sense for that entity to take on the debt incurred to date as long as that is practically feasible. It's not particularly efficient for two separate entities to be managing debt incurred for the same purpose and the ratepayers to be saddled with two sets of management fees.
- Last item on page 2, Purpose and Design of the Trust: the purpose of the Trust is not to allow OPG to earn a fee, rather to exist as a vehicle to smooth the GA costs between current and future ratepayers. OPG's fees should be limited a to a reasonable management fee and the interest fee accruing from the debt issued to the Trust funded by the 44% equity injection.
- Page 3, Financing Plan, 2nd and 3rd bullets: the ministry should have some approval authority over the Financing Plan and giving OPG the ability to unilaterally amend the plan is problematic.
- Page 3 last bullet: OPG having the power to reject purchasing the investment asset places the entire Fair Hydro Plan in jeopardy, including the possibility of a large regulatory asset being included in IESO's financial statements and by extension in the Province's PA.
- Page 4, the analysis under "Assessment": fees and Financing Plan, pls see comments above.
- Page 5, 1st bullet Fees: already covered in previous comments
- Page 5, 2nd bullet: OPG should recognize that the only 5% of its own debt is at risk, the balance 44% being funded via the equity injection the risk resides with Province since there is expectation on the part of the latter that the equity injection will also be repaid in proportion to the repayment of the debt the Trust owes to the markets.
- Page 5, 3rd bullet: wouldn't direct funding from the Province to OPG, impact the sanctity of the GBE model? In the event of a market disruption, a better approach maybe for IESO to continue accumulating the regulatory asset, however, there are accounting implications re including said asset in the Province's PA upon consolidation.
- Page 6, last two items relating to "Assessment": I am a little confused regarding OPG's exposure to variable returns, assuming the model includes a tru-up mechanism that allows the Trust to recover any variation from the pre-determined benchmark borrowing rate, the risk arising from a variance is entirely borne by the ratepayers.
- Page 9, item 4: As mentioned previously the Province should have some authority over the Financing Plan including the ability to veto provisions and/or amendments.
- Page 9, item 6: equity injection is from the Province not OEFC.
- Page 10, item 8 (b) and (c): benchmark vs. actual previously discussed.

-----Original Message-----
From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Thursday, May 04, 2017 3:02 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Fw: Drafts of accounting memos

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: MAUTI John -FIN & C CTRL <john.mauti@opg.com>
Sent: Tuesday, May 2, 2017 6:38 PM
To: Veinot, Cindy (TBS)
Subject: FW: Drafts of accounting memos

Hi Cindy,
Attached is OPG's accounting memo and a draft of the EY letter.
FYI

Thanks

John G. Mauti
Chief Controller & Accounting Officer
OPG Inc.
(416) 592-4046

From: MAUTI John -FIN & C CTRL
Sent: Tuesday, May 02, 2017 5:00 PM
To: 'steen.hume@ontario.ca'
Cc: HARTWICK Ken -FINANCE; MAUTI John -FIN & C CTRL; JORDA Jenny -FIN & C CTRL
Subject: Drafts of accounting memos

Attached is a current draft of the OPG accounting memo and then EYs letter (again in draft) Minor changes may be made in the interim.

Draft OPG accounting memo

Draft of EY opinion letter

Thanks

John G. Mauti
Chief Controller & Accounting Officer
OPG Inc.
(416) 592-4046
