RE: Electricity -- Update from 8 pm accounting call

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Sun, 26 Feb 2017 23:12:03 -0500

Cindy,
Can't say I'm entirely clear on how the .77 interest is actually recovered through bills. Seems that it would be taking from the $70 non-deferred amount that would otherwise be collected, since the net bill to the customer remains at $70? Also confused on how we can have a deferral of 30.77 if we're receiving .77 for interest. Wouldn't the deferral be 30 then? OPGTrust wouldn't receive interest twice (now and in the future when the deferral is collected), would they?
N

From: Veinot, Cindy (TBS)
Sent: February-26-17 10:47 PM
To: Hughes, Karen (TBS); Angus, Helen (TBS)
Cc: Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)
Subject: RE: Electricity -- Update from 8 pm accounting call

Call at 9:45 included -- OPCD (Nadine + me), OFA (Ken K), OPG (Alec Cheng and John Mauti) and KPMG (Michel Picard).

We covered the OEB issue again – nothing new.

We discussed how OPG Trust will recognize revenue related to the interest charges from Day 1 – I've asked OPG to ensure they communicate with Energy re: legislation being drafted in line with this understanding and any communication will taking this into account (depending on the level of detail in communications, this may be addressed.) This issue is critical to the Province not having a fiscal impact from the transaction (excluding consideration of any differential in interest rates.)

OPG expects to have a draft whitepaper ready for tomorrow (we haven't seen a draft).

Cindy

From: Veinot, Cindy (TBS)
Sent: February-26-17 9:27 PM
To: Hughes, Karen (TBS); Angus, Helen (TBS)
Cc: Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)
Subject: Electricity -- Update from 8 pm accounting call

Call at 8 included – OPCD (Nadine + me), OFA (Ken K), IESO (Kim Marshall) and KPMG (Michel Picard).

We largely focused on the OEB issue as OPG was not available (planning to speak to them at 9:45 this evening).

Michel and Kim M were at one of the OEB meetings on Friday, but not for the entire meeting. Serge mentioned there were two meetings on Friday. We discussed that tomorrow, it would be best for Steen/Scott Nelms to provide an overview of the meetings with the OEB.

With respect to the accounting implications, we discussed that there is some precedent in Canada for entities applying rate regulated accounting when their own Board acts as the governing body in setting rates. Michel is going to provide the examples he is aware of (NAV Canada, a BC Ferries organization and one other). We need to do some additional due diligence on this, but the idea is whether the IESO Board could act as the governing body.

The wording of the accounting criteria that is at risk is:

(a) The regulated business-type activity's rates for regulated services provided to its customers are established by or are subject to approval by an independent, third-party regulator **or by its own governing board empowered by statute or contract to establish rates that bind customers .**

Because the OEB is not considered independent from an accounting perspective (controlled by the Province), the OEB is viewed as meeting the bolded section above (Nadine – feel free to provide more context). The idea being considered is whether there could be two regulators for IESO – OEB for part of their business and IESO Board another part of their business. I've asked Kim M to speak to this idea tomorrow morning from an accounting perspective re: IESO.

In an already complex transaction structure, it would be simpler for the OEB to regulate the GA smoothing, so in my view, this idea adds complexity and risk to the structure. In addition, as noted, we need to complete our due diligence on the idea (which folks are working on.)

Cindy