RE: SOC question on comparative accounting

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: "Kandeepan, Ken (OFA)" <ken.kandeepan@ofina.on.ca>, "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Cc: "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
Date: Tue, 28 Feb 2017 10:53:47 -0500

Thanks Ken.
Cindy – Please advise of next steps w.r.t. responding to Steve's question.
Nadine

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: February 28, 2017 10:46 AM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: RE: SOC question on comparative accounting

Hi Nadine

Not sure if this Q&A is still required for the SOC, if so pls one minor edit below.

Thanks

Ken k

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Sunday, February 26, 2017 3:50 PM
To: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: SOC question on comparative accounting

Cindy,
I've made some additional edits to the Q&A prepared in response to Steve's question on GAM vs. Stranded Debt.
Based on the current state of assessment, I assume that we may want to further edit the Q&A before sharing.
Nadine

From: Petsche, Nadine (TBS)
Sent: February-22-17 5:10 PM
To: Veinot, Cindy (TBS)
Cc: Patel, Bharat (TBS); Ken Kandeepan (Ken.Kandeepan@ofina.on.ca); Hosick, Sarah (TBS)
Subject: SOC question on comparative accounting

Cindy,

In response to the SOC's question on accounting for Stranded Debt vs. the GAM smoothing model, please see the Q&A below. Thanks to OFA for their input on this item.

Nadine

Question:

What is the difference in accounting for the Stranded Debt on the Province's books versus what is being proposed for the GAM deferral account?

Answer:

The net unfunded liability for the Stranded Debt impacts net debt because it is reported as a liability (Provincial Debt) on the Province's books.

The deferred GAM costs would not impact net debt, if the targeted accounting treatment is achieved, because it would be offset by an intangible asset reported on OPG's financial statements . Likewise the debt incurred by the Province to fund the equity injection to OPG, under the targeted accounting treatment, will be offset by an increase in the Investment in GBEs which are classified as financial assets . Hence the Province's net debt will unaffected.

Stranded Debt costs (including interest) are recovered through various revenue streams (e.g., DRC, ESDI and PILs) which are all dedicated revenues from the electricity sector. The expenses and revenues are consolidated into Public Accounts.

Deferred GAM costs will also be recovered from ratepayers in the future; however, under the targeted accounting treatment, the associated revenues of the Trust will not appear on the Province's books as they will be offset by amortization of the related intangible asset on OPG's books over the recovery period (no net fiscal impact). Interest revenue earned by OPG on the loan to the OPGTrust, net of any external debt interest expense, will be consolidated on the Province's books as part of the consolidation of OPG's net income and offset borrowing costs reported by the Province. OPG's interest revenue from the Trust is assumed to be sufficient to cover the cost of the Province's equity investment in OPG in order to negate any net fiscal impact to the Province. Despite no net fiscal impact, the Province's IOD will appear higher by the amount of interest incurred to finance the equity injection in OPG.

Once the Stranded Debt costs are fully recovered, the unfunded liability on OEFC's books will be drawn down to zero. The residential component of the DRC ceased as of Jan 1, 2016 while the non-residential component is legislated to end April 1, 2018. The Province will continue to benefit from OPG and H1 revenue reported on its books, as well as OPG PILs and D RC revenue.

Once the deferred GAM costs are fully recovered through rates and paid to OPG Trust, the intangible will be drawn down to zero and the related revenue stream will cease.
