Re: Price Mitigation & Accounting Meeting

From: "Hughes, Karen (TBS)" <karen.hughes@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Sun, 22 Jan 2017 15:52:13 -0500

Thanks - hope you are having a good weekend.

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Veinot, Cindy (TBS)
Sent: Sunday, January 22, 2017 3:44 PM
To: Imbrogno, Serge (ENERGY); Mayman, Gadi (OFA); Thompson, Scott (MOF); Kwan, Ronald (OFA); Kennedy, Nancy (MOF); Hughes, Karen (TBS); Hume, Steen (ENERGY); Angus, Helen (TBS)
Subject: Re: Price Mitigation & Accounting Meeting

I talked to KPMG for a few minutes after the meeting on Friday to clarify the LDC idea that had been discussed in the meeting. It was clear that the LDCs could not take on the debt based on discussions in the meeting. However, they may not have to pay the Province, but rather to have an obligation to pay the Province in the future. In other words, the LDCs would have a long term payable to the Province for the amount of the GA that is financed.

Steen and I discussed on Friday as I think this should be explored as it has potential from an accounting perspective.

Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Imbrogno, Serge (ENERGY)
Sent: Saturday, January 21, 2017 12:35 PM
To: Mayman, Gadi (OFA); Thompson, Scott (MOF); Kwan, Ronald (OFA); Kennedy, Nancy (MOF); Veinot, Cindy (TBS); Hughes, Karen (TBS); Hume, Steen (ENERGY); Angus, Helen (TBS)
Subject: Re: Price Mitigation & Accounting Meeting

Hi Gadi. Also agree that this is worth exploring. As with all the options we'll need to think a strong policy rationale for our actions, including the mechanics. Serge

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Gadi Mayman
Sent: Saturday, January 21, 2017 11:20 AM
To: Thompson, Scott (MOF); Kwan, Ronald (OFA); Kennedy, Nancy (MOF); Imbrogno, Serge (ENERGY); Veinot, Cindy (TBS); Hughes, Karen (TBS); Hume, Steen (ENERGY); Angus, Helen (TBS)
Subject: Re: Price Mitigation & Accounting Meeting

Serge and Cindy, what do you think? Is this worth exploring?

Original Message
From: Thompson, Scott (MOF)
Sent: Saturday, January 21, 2017 11:12 AM
To: Gadi Mayman; Ronald Kwan; Nancy Kennedy (MOHLTC)
Subject: Re: Price Mitigation & Accounting Meeting

Yes I think it is worth suggesting this be explored. I think we have to get creative, as you say

Thanks
Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Gadi Mayman
Sent: Saturday, January 21, 2017 10:53 AM
To: Thompson, Scott (MOF); Kwan, Ronald (OFA); Kennedy, Nancy (MOF)
Subject: Re: Price Mitigation & Accounting Meeting

So let's get creative here. The LDCs would give us the accounting treatment we need, but lack the balance sheet. The Province has the balance sheet space, arguably, but not the appropriate accounting ability, which, I assume, is because of the way OEFC or the IESO are consolidated on the Province's books and because neither of us can use rate regulated accounting. As a solution, what if the IESO bills the LDCs, but instead of the LDCs taking on debt to pay the IESO, we have OEFC borrow the money and invest in an equal amount of equity of the LDC (could be common, but maybe preferred is better so it doesn't mess up the other shareholders in privately, or partially privately, held LDCs like Hydro One). As we get later in the process many years from now and the repayment begins, we'd begin unwinding the equity and paying down OEFC debt.

Sounds crazy, but maybe this, or something like it, puts the debt where it's affordable, gives the accounting treatment we need to not have this impact the fiscal plan, and achieves the policy goal of spreading the GA costs over the actual life, rather then the contractual life, of the contracts.

Is it worth suggesting this to Energy and the internal and external accountants?

Original Message
From: Thompson, Scott (MOF)
Sent: Saturday, January 21, 2017 7:33 AM
To: Ronald Kwan; Gadi Mayman; Nancy Kennedy (MOHLTC)
Subject: Re: Price Mitigation & Accounting Meeting

Thanks Ron. Good update
Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ronald Kwan
Sent: Friday, January 20, 2017 11:39 PM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA); Kennedy, Nancy (MOF)
Subject: Price Mitigation & Accounting Meeting

Hi Scott, Gadi, Nancy,

Steen organised a meeting this afternoon with OPCD, IESO and KPMG, as well as various government / OPS staff.

Steen had asked me to talk about the OEFC and DRC, as he had said that some folks were under the impression that OEFC and the DRC could be a model that could be useful for a structure for the GA option.

I explained at the meeting that OEFC was not a rate regulated entity and does not have regulatory assets, and that it's consolidated into Public Accounts such that its shortfalls in revenues vs expense negatively affect the Province's bottom line. I noted that was the case when OEFC did not recover its full NUG contract costs and when it funded the 2002 price freeze. I noted that even with the current structure with legislative cost recovery of NUG costs since 2005, OEFC still records the NUG contract-related expenses and revenues, and if they were ever different there would be a bottomline impact.

Steen was aware of that, but just wanted to have that recounted and move on in the meeting to look at another potential structure/option.

There was also a brief mention of the LDC option; however, it seemed to have been discussed earlier with KPMG and Pelino (who was there as an external consultant supporting KPMG it seemed) and the view was it was not a viable option, as it would destroy LDC balance sheets by adding too much debt to them relative to their balance sheets. It was also viewed as an option that would take too long to put in place, though there was a feeling that the desired accounting would work in this structure.

Most of the discussion was on how the IESO records the regulated price plan (RPP) variances. Note that in any given period the inflows from RPP customers for electricity does vary from the outflows to pay for the power -- since RPP prices are set every six months to recover costs on a forecast basis, and actuals differ from forecasts, there's a variance. The IESO has a credit facility from the OFA that it can access to cover balances, though the variances are small and short-term compared to the amounts under discussion in the GA option.

The meeting ran long. There was going to be further discussions amongst the accountants from OPCD, IESO and KPMG on how the IESO records the RPP. It wasn't clear if the RPP case would work in the case of the GA option such that there would not be a bottomline impact.

There was also a brief aside from KPMG and Pelino on how the accounting would work if a third party financial institution got in the middle of this, which was thought to be feasible from a procurement perspective, but way more costly than a government financing of the deferral. As such, folks dismissed this option at the meeting , but I wanted to mention it should it be brought up again. I would think Gadi might have some views on such an option.

I'm not sure if Energy will hold another multi-party meeting or if it will meet just with the various accountants as it prepares to report in to FPC next week.

If I do hear more in the interim, I'll provide an update.

Ron

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