Message

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Sent: 2017-07-11 3:18:53 PM
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Subject: memo to Board

I am writing out some of the accounting for the Board. How does this sound?

Although a reduced RPP rate was introduced on May 1, 2017, the actual changes the RPP or Global Adjustment smoothing program were effective on July 1, 2017, with many of the accounting changes expected to commence in August with the first transfer of the regulatory asset to the financing entity (OPG Trust). The accounting for these transactions will be as follows each month:

1) Market invoicing will settle the generator contracts but receive a reduced amount from the LDCs. This amount will be recorded in the variance account as part of the regulatory asset.
2) The difference will be funded by IESO debt in the interim.
3) OPG will invoice the market for the financial management of the financing entity including any administration costs, the resupply of third party transactions and interest. This amount will be recorded in the variance account as part of the regulatory asset.
4) OPG Trust will purchase the regulatory asset. This will transfer the majority of risks and rewards associated with the asset to the OPG Trust.
5) IESO will use the cash received from the transfer of the regulatory asset to repay the debt from step 2 above.
6) Any interest incurred by the IESO for their debt will also be recorded in the variance account as part of the regulatory asset.

In theory, the transfer of 100% of the regulatory asset to OPG Trust will not result in any additional variance amounts on the market books at each month end. The balance in the variance account as of March 31, 2017 was an asset of $72.4 million (net of interest) and offset by the revolving line of credit (see attached appendix – Note 2 Market Accounts).

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