

Subject: RE: Media inquiry-- KPMG's consulting work on Fair Hydro Plan

Thanks for this – an updated response is included below.

Let me know if you have any concerns before this is shared more broadly.

Questions:

- Was that consulting work ever put out to tender?
- If so, where can I find the related documents?
- If it wasn't put out to tender, what was the procurement process for these services, and where can I find the documentation?

Responses:

The IESO competitively procured KPMG to conduct its financial audit services in late 2009. The contract was for a five year period, commencing with the 2010 fiscal year, with an option for an extension of up to five additional years. In 2014, the IESO agreed to extend the existing agreement for the years ending December 31, 2015 to December 31, 2019. In addition to services related to the annual audits, the scope of work contemplated other services, including advice on taxation matters and educational information and presentations on general accounting, auditing and taxation.

In late April, the IESO engaged KPMG to provide accounting advisory services in relation to the application of PSAS to the consolidation of a trust and to the recognition and de-recognition of a variance account in relation to the proposed Ontario Fair Hydro Plan. The IESO engaged KPMG to conduct this work under its existing contract.

Engaging KPMG to conduct analysis on the application of PSAS does not preclude KPMG from acting as the external auditor under applicable rules of professional conduct in Canada. As noted above, KPMG's work related to the Fair Hydro Plan began in April 2017, after the IESO's 2016 financial statement audit was complete. Further, KPMG's lead partner for work related to the Fair Hydro Plan was different than its lead partner for work related to the IESO's financial audit services.

With respect to the procurement documents, the original RFP was put out to market as confidential and proponents were required to sign a non-disclosure agreement for access. The work carried out in 2017 with respect to Fair Hydro was covered in an engagement letter,

From: Megan Filey
Sent: April 12, 2018 3:25 PM
To: Anthony Lovachis
Subject: RE: Media inquiry-- KPMG's consulting work on Fair Hydro Plan

Hi Anthy

Please see below suggested edits regarding the engagement terms. The key is that this was part of the existing agreement and not that we "didn't tender" (as that could open further questions).

This sentence should be reviewed given the timing of ongoing work and the 2017 statement period: *"KPMG's work related to the Fair Hydro Plan took place well after the IESO's 2016 financial statement audit was complete"*

The Needs Assessment included the following scope of services. Item #4 includes the services of SME's and consideration for large organizational impacts for regulatory changes that impact our financial statements. We have provided single source justification to the CEO (in accordance with procurement policy requirements, and which has been approved) for all additional funds related to this specific engagement:

The recommendation approved by the IESO Board to appoint KPMG for five years including a possible extension of a second five year term. Therefore, the total procurement value estimated below includes costing for ten years with a 3% inflation rate added for years six to ten.

- 1) Corporate Financial Statement Audit: \$611.5k
- 2) Pension Plan Financial Statement Audit: \$160.6k
- 3) Contingency for ad-hoc Taxation/Education Services: \$573.2k
- 4) Contingency of 30% (SME, handbook changes, large/organizational tax changes): \$409.6k

Total procurement value of contract \$1755k.

The first 5 year term was the 2010 to 2014 year ends.

The second 5 year term will take us to 2019 year end."

Let me know if you need anything else.

From: Anthy Lovachis
Sent: April 12, 2018 1:58 PM
To: Megan Filey
Subject: FW: Media inquiry-- KPMG's consulting work on Fair Hydro Plan

FYI: current response + questions below. Updating now with insights you provided.

From: Anthy Lovachis
Sent: April 12, 2018 11:55 AM
To: Kim Marshall
Subject: RE: Media inquiry-- KPMG's consulting work on Fair Hydro Plan

Hey there -- hoping to connect with you on this today. Do you have a few minutes to spare?

From: Kim Marshall
Sent: April 05, 2018 1:34 PM
To: Anthy Lovachis
Cc: John Rattray
Subject: Re: Media inquiry-- KPMG's consulting work on Fair Hydro Plan

No

Sent from my iPhone

On Apr 5, 2018, at 11:15 AM, Anthy Lovachis <Anthy.Lovachis@ieso.ca> wrote:

Hi there,

Please let me know if you have any concerns with the proposed response below to questions we received from Matthew (from the Globe and Mail), included at the bottom of the email.

Thank you,

Anthy

The IESO competitively procured KPMG to conduct its financial audit services.

When the IESO began to review its accounting policies early in 2017, it engaged KPMG to provide accounting advisory services related to the understanding and application of Public Sector Accounting Standards (PSAS). ~~This work was not put out to tender, as~~ It is very common for auditors to provide advisory services to their clients, and this type of service was contemplated under the existing agreement with KPMG.

In late April, the IESO engaged KPMG to provide accounting advisory services, this time in relation to the application of PSAS to the consolidation of a trust and to the recognition and de-recognition of a variance account in relation to the proposed Ontario Fair Hydro Plan. Given the existing relationship, ~~and KPMG's understanding of the IESO's business, and the work completed in relation to PSAS, this work was not put out to tender~~ also engaged under the existing agreement.

Engaging KPMG to conduct analysis on the application of Public Sector Accounting Standards does not preclude KPMG from acting as the external auditor under applicable rules of professional conduct in Canada. KPMG's work related to the Fair Hydro Plan took place well after the IESO's 2016 financial statement audit was complete. Further, KPMG's lead partner for work related to the Fair Hydro Plan was different than its lead partner for work related to the IESO's financial audit services.

From: Jordan Penic
Sent: April 04, 2018 3:15 PM
To: Anthy Lovachis
Cc: John Cannella
Subject: FW: Media inquiry-- KPMG's consulting work on Fair Hydro Plan
Importance: High

Hi Anthy,

Would you mind drafting some responses to the questions below? There is no firm deadline, but it would be good if we could respond by the end of the week.

-Jordan

From: John Cannella
Sent: April 04, 2018 3:08 PM
To: Jordan Penic
Subject: Media inquiry-- KPMG's consulting work on Fair Hydro Plan
Importance: High

Jordan—see follow up Qs from Matthew.

I'll find out about a deadline.

John

From: McClearn, Matthew [<mailto:MMcClearn@globeandmail.com>]
Sent: April 04, 2018 3:04 PM

To: Media

Subject: KPMG's consulting work on Fair Hydro Plan

I have a few more questions regarding KPMG's consulting work on the Fair Hydro Plan.

- Was that consulting work ever put out to tender?
- If so, where can I find the related documents?
- If it wasn't put out to tender, what was the procurement process for these services, and where can I find the documentation?

Thanks and regards,

Matt.

<image001.jpg>

Matthew McClearn | Data journalist, Enterprise Team

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