Fair Hydro Plan

Key Messages and Qs & As
(INTERNAL)

Key Messages

Proposed Legislation

- The government has introduced legislation that, if passed, will require ~~the~~ refinancing a portion of the Global Adjustment over a longer period of time.

- The proposed legislation will see the deferred GA costs transferred to a trust to be created by OPG. In later years, the cost of refinancing will be recovered through adjustments to consumer hydro bills called a Clean Energy Adjustment.

- Under the proposed legislation, the IESO, as an agent of the trust, will manage the recovery of the Clean Energy Adjustment from consumers and LDCs and remit it to the trust.

Role of the IESO in the Fair Hydro Plan

- The Independent Electricity System Operator manages the province's power system so that Ontarians receive power when and where they need it. It overseas Ontario's electricity market, plans and prepares for future electricity needs, and works with its partners to guide conservation efforts. In its role as the market administrator, The IESO operates and settles the electricity market, where sums of money are constantly flowing to and from market participants, such as consumers and generators.

- As the market administrator, the IESO facilitates these market transactions which require it to temporarily hold and move money, including recovering costs associated with Global Adjustment.

- As part of settling the market, the IESO recovers from ratepayers the amounts paid to generators, distributors or other contracted entities. In 2016, the IESO settled $17 billion in financial transactions from Ontario's electricity market, related services, programs and electricity charges. Under the proposed legislation, the deferred GA costs will be recorded in a variance account, which will be a regulatory asset. The proposed legislation establishes the framework for transferring this asset to OPG Trust.

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- Under the proposed legislation, the IESO will continue to settle Global Adjustment as it had in the past. At the same time, it will also calculate and record any deferred GA amounts that it will transfer to the OPG Trust.

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Global Adjustment

- The Global Adjustment (GA) is part of the total cost for electricity in Ontario. The GA covers the cost of building new electricity infrastructure in the province, maintaining existing resources, as well as providing conservation and demand management programs.

IESO Accounting

- After a review of its accounting practices in consultation with KPMG, the IESO decided to include year-end market account balances on its financial statements in an effort to increase transparency.

- The IESO has made changes to its accounting policies to increase transparency and to report certain costs as regulated assets, consistent with the accounting policies of other regulated entities in North America. The changes include the recognition of rate regulated assets as well as the recognition of market accounts assets and liabilities on the statement of financial positions.

- It's important to note that these items do not affect IESO's costs and the impact on ratepayers does not change.

Questions and Answers

Proposed Fair Hydro Plan Act, 2017

1. **Why is deferred GA later collected as a 'Clean Energy Adjustment'?**

The Clean Energy Adjustment will factor in the deferred GA costs as well as interest and other costs.

2. **How much debt will be accumulated over time, by deferring GA?**

The government's initial analysis indicated that the proposed legislation would lead to an accumulated debt not ~~to~~ exceeded $28 billion, including interest.

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Accounting Practices

3. **Do the IESO's accounting practices allow it to recognize regulatory assets?**

The accounting structure proposed in the Fair Hydro Act, 2017 are consistent and compatible with the IESO's current financial accounting practices, recommended by KPMG. The IESO has applied guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, *Regulated Operations*, in this policy. As a result, the IESO can recognize a regulatory asset related to the variance account created by the proposed Act, and that regulatory asset will no longer be included in IESO financial statements upon transfer of the account to a trust to be set up by OPG.

4. **How does the IESO's accounting policy change facilitate the government's global adjustment refinancing plan?**

The IESO's change in accounting policy was recommended by KPMG as a result of a review of its accounting practices. With this change, the IESO increases its transparency with regards to the disclosure of market transactions and can recognize a regulatory asset related to the variance account created by the proposed Act.

5. **Why did the IESO determine that the new accounting policy on rate-regulated accounting was more relevant to the IESO?**

After reviewing its accounting policies, it was determined that rate-regulated accounting was more applicable to regulated entities such as the IESO. This is consistent with the accounting policies of other regulated entities across North America. In Ontario, almost all local distribution companies and natural gas distribution companies use rate regulated accounting.

6. **Did the IESO review its accounting policies as a result of its role in refinancing the global adjustment?**

The IESO regularly reviews its accounting policies although this review was triggered by discussions with government. The IESO's review determined that including market accounts would increase transparency and reporting certain costs as regulated assets was consistent with the accounting policies of other regulated entities across North America. Even if the government refinancing plan does not proceed, the IESO would have made the change.

7. **Is the trust to be established by Ontario Power Generation controlled by the IESO?**

The IESO will not have the power to govern the Trust, nor have ongoing access to the Trust's assets. The IESO will also not have any voting shares or future rights to the Trust nor the power to dissolve the Trust. Without control, the Trust is not subject to consolidation within the IESO financial statements.

Commented [BJ3]: OPG Trust?

Leaked cabinet documents

8. **Does the IESO agree with GA smoothing/ price forecast?**

The IESO is not in a position to comment on leaked cabinet documents.

9. **Does the IESO expect existing facilities to be around past the duration of their contracts?**

The IESO's 2016 Ontario Planning Outlook analysis assumes that service lives of generators could be extended beyond their contract terms, at additional investment and ongoing costs. The IESO just launched the Market Renewal Program that will provide the opportunity for generators out of contract to continue to supply electricity, provided they are cost competitive. Annual capacity auctions would establish an enduring mechanism that creates a level playing field for all resources to compete to make sure Ontario has the resources it needs to meet demand into the future.