

Message

From: Kim Marshall [/O=IMO/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=KIM MARSHALL9F5]
Sent: 2017-02-26 11:41:06 AM
To: Picard, Michel [mpicard@kpmg.ca]; Betik, Matthew [mbetik@kpmg.ca]
Subject: RE: EXTERNAL - New thinking

I think this is a misunderstanding - are we on regulatory accounting or not

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-----Original Message-----

From: Picard, Michel [mailto:mpicard@kpmg.ca]
Sent: February 26, 2017 11:25 AM
To: Kim Marshall; Betik, Matthew
Subject: FW: EXTERNAL - New thinking

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In both approaches proposed (1st one- sale of a recognized reg asset; and 2nd - sale of an unrecognized asset), there will never be a regulatory asset at the end of the year in the IESO's book since it will be sold. Am I missing anything here!

-----Original Message-----

From: CHENG Alec -FIN & C CTRL [mailto:alec.cheng@opg.com]
Sent: Saturday, February 25, 2017 9:46 PM
To: Picard, Michel <mpicard@kpmg.ca>; MAUTI John -FIN & C CTRL <john.mauti@opg.com>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Kim Marshall <Kim.Marshall@ieso.ca>; Calwell, Carolyn (ENERGY/MEDEI/MRI) <Carolyn.Calwell@ontario.ca>; Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>; Nelms, Scott (ENERGY) <Scott.Nelms@ontario.ca>; Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Ouellette, Lois A <louellette@kpmg.ca>; Betik, Matthew <mbetik@kpmg.ca>; HARTWICK Ken -FINANCE <ken.hartwick@opg.com>
Subject: Re: EXTERNAL - New thinking

Normally, in a related party transaction, one party would set up an asset the other party should have a liability (or a reduction of asset). Given this principle, in my view, the proper accounting should be a hit to the Province or IESO books to offset the asset on the sale to OPG reflecting the sale of future cash inflows. Without a regulatory asset, this would result in the deferred amount flowing through the provincial deficit.

Original Message

From: Picard, Michel
Sent: Saturday, February 25, 2017 6:03 PM
To: MAUTI John -FIN & C CTRL
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Kim Marshall; CHENG Alec -FIN & C CTRL; Calwell, Carolyn (ENERGY/MEDEI/MRI); Imbrogno, Serge (ENERGY); Nelms, Scott (ENERGY); Hume, Steen (ENERGY); Ouellette, Lois A; Betik, Matthew; HARTWICK Ken -FINANCE
Subject: Re: EXTERNAL - New thinking

Thanks John.

I was thinking that the asset was sold on a daily basis but not necessarily settle on a daily basis.

The reason of the daily sale was to match the energy cost incurred to avoid having an accounting loss.

Instead of daily, the sale could take place on, at least, on a monthly basis to avoid any accounting impact on IESO's monthly income statement. The settlement should be made to meet the cash outflows requirement.

I believe there is a risk for the AG to refuse rate regulated accounting under PSAB. Without the intervention of the OEB, OPG should be able to get a better rating of the bonds.

Sent from my iPhone

On Feb 25, 2017, at 13:05, MAUTI John -FIN & C CTRL <john.mauti@opg.com<mailto:john.mauti@opg.com>> wrote:

Michel,
I believe this approach increases the risk of seeing through what this transaction is and having it hit the Provincial deficit immediately. Plus, the transaction would incorrectly be viewed as an OPG only transaction with the GA rebate being on account of OPG.

We've discussed the optics in the past of the IESO not showing the acquisition / set up of an asset through the "speed" with which it is absorbed and picked up by OPG. We've taken it to the extreme of the position that the asset is never on the IESO's books because it settles daily (so it's not a tranche on a quarterly or semi annual basis but basically 365 tranches per year).

What you're suggesting is that OPG recognizes an asset that the IESO so no ability to set up on its own. Doing it daily does not change that fact in my opinion.

My suggestion:

"Desire to be involved" was never a criteria for this plan.... why not compel the OEB to adhere to the legislation and write them in to limit their involvement to ensuring the recovery is as per allowed in the legislation (no ability to alter or really make any decision other than the legislation and subsequent regulation are being followed). Legislation and regulation that directs the OEB to do things is standard practice and is not something that the OEB can determine or dictate.

Thanks
John Mauti

From: Picard, Michel [mailto:mpicard@kpmg.ca]
Sent: Friday, February 24, 2017 10:51 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Kim Marshall; MAUTI John -FIN & C CTRL; CHENG Alec -FIN & C CTRL; Calwell, Carolyn (ENERGY/MEDEI/MRI); Imbrogno, Serge (ENERGY); Nelms, Scott (ENERGY); Hume, Steen (ENERGY)
Cc: Ouellette, Lois A; Betik, Matthew
Subject: EXTERNAL - New thinking

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All,

As you know by now, the OEB believes that they should not be involved with the approval process of the regulatory asset.

In the absence of regulatory accounting, PSAB requires that the energy purchased (the unrecognized regulatory asset) be expensed immediately.

If the sale contract would be set-up in a way that the unrecognized asset is sold to the OPG Trust on a daily basis, then an offsetting revenue would be recorded.

As IESO is an agent for the market participants, IESO is showing the market transactions in the income statement on a net basis.

Therefore, no impact on the income statement and the sale would be recorded as a receivable from the OPG Trust.

The accounting treatment in the IESO's books should not impact the nature of the asset purchased by the OPG Trust, as I believe it would still be considered an intangible asset.

The new accounting approach would:

- not require the approval of the OEB;
- not require IESO to adopt regulatory accounting under PSAB; and · permit the legislation to be as tight as possible for the right to collect the intangible asset; and · not require the consolidation of the market books.

I would appreciate your comments on the proposed approach above.

Ps: Is this the magic that Andrew was expecting!

Michel Picard, CPA, CA

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