Message

From: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Sent: 2017-02-26 1:34:39 PM
To: CHENG Alec -FIN & C CTRL [alec.cheng@opg.com]; Picard, Michel [mpicard@kpmg.ca]; MAUTI John -FIN & C CTRL [john.mauti@opg.com]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Kim Marshall [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=b63a22b42bf14587870d93119a054d88-Kim Marshal]; 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

*** EXTERNAL email. Please be cautious and evaluate before you click on links, open attachments, or provide credentials. ***

In the absence of IESO selling a regulatory asset to OPG Trust, what is IESO selling? It would seem to be that the transaction would then be more akin to the sale of future revenues, which is typically accounted for as a financing transaction.

I would be interested in understanding more the opportunity to pursue additional discussions with the OEB -- is that door closed?

Cindy

-----Original Message-----
From: CHENG Alec -FIN & C CTRL [mailto:alec.cheng@opg.com]
Sent: February-25-17 9:46 PM
To: Picard, Michel; MAUTI John -FIN & C CTRL
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Kim Marshall; 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

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

*** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. *** ________________________________

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

Partner, Accounting Advisory Services

KPMG LLP

333 Bay Street, Suite 4600
Toronto, Ontario, M5H 2S5
T 416 777 8414
M 416 560 2569
mpicard@kpmg.ca<mailto:mpicard@kpmg.ca>
LinkedIn<https://urldefense.proofpoint.com/v2/url?u=https-3A__www.linkedin.com_in_michel-2Dpicard-2D8b3b942b-3FauthType-3DNAME-5FSEARCH-26authToken-3DoVKr-26locale-3Den-5FUS-26trk-3Dtyah-26trkInfo-3DclickedVertical-253Amynetwork-252CclickedEntityId-253A107441415-252CauthType-253ANAME-5FSEARCH-252Cidx-

253A1-2D1-2D1-252CtarId-253A1478640064654-252Ctas-253Amichel-2520pi&d=DwMGaQ&c=0TzQCy9lgR5hSW-bDg5HA76y7nf4lvOzvVop5GM3Y80&r=DAOe89GuHpPZrONj_IODmw&m=x8jOMnpnHgIfMDkvFGR2RUAuvCsTONVUQ5RRDcCtE9c&s=YLt1jRzoPpDM030sMIwbi2TPyWCqDVUfaZ7rJFQFG7Y&e=>

This email was sent to you by KPMG<http://info.kpmg.ca/> (http://info.kpmg.ca<http://info.kpmg.ca/>). To sign up to receive event invitations and other communications from us (we have some informative publications that may be of interest to you), or to stop receiving electronic messages sent by KPMG, visit the KPMG Online Subscription Centre<https://urldefense.proofpoint.com/v2/url?u=http-3A__pages.kpmgemail.com_page.aspx-3FQS-3D2e4c31a3756cb940af903f205e1f1e041bdb8334b58bad706ad9d7762eb124d4&d=DwMGaQ&c=0TzQCy9lgR5hSW-bDg5HA76y7nf4lvOzvVop5GM3Y80&r=DAOe89GuHpPZrONj_IODmw&m=x8jOMnpnHgIfMDkvFGR2RUAuvCsTONVUQ5RRDcCtE9c&s=2TcOdaz_sQq-GO5HrvMBWpmzOUrZF6joIHbpymtTNfQ&e=> (http://subscribe.kpmg.ca<https://urldefense.proofpoint.com/v2/url?u=http-3A__pages.kpmgemail.com_page.aspx-3FQS-3D2e4c31a3756cb940af903f205e1f1e041bdb8334b58bad706ad9d7762eb124d4&d=DwMGaQ&c=0TzQCy9lgR5hSW-bDg5HA76y7nf4lvOzvVop5GM3Y80&r=DAOe89GuHpPZrONj_IODmw&m=x8jOMnpnHgIfMDkvFGR2RUAuvCsTONVUQ5RRDcCtE9c&s=2TcOdaz_sQq-GO5HrvMBWpmzOUrZF6joIHbpymtTNfQ&e=>).

At KPMG we are passionate about earning your trust and building a long-term relationship through service excellence. This extends to our communications with you.

Our lawyers have recommended that we provide certain disclaimer language with our messages. Rather than including them here, we're drawing your attention to the following links where the full legal wording appears.

* Disclaimer concerning confidential and privileged information/unintended recipient<https://home.kpmg.com/ca/en/home/misc/disclaimer-confidential.html> (http://disclaimer.kpmg.ca<https://home.kpmg.com/ca/en/home/misc/disclaimer-confidential.html>).
* Disclaimer concerning tax advice<https://home.kpmg.com/ca/en/home/misc/disclaimer-tax.html> (http://taxdisclaimer.kpmg.ca<https://home.kpmg.com/ca/en/home/misc/disclaimer-tax.html>).

If you are unable to access the links above, please cut and paste the URL that follows the link into your browser.

THIS MESSAGE IS ONLY INTENDED FOR THE USE OF THE INTENDED RECIPIENT(S) AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, PROPRIETARY AND/OR CONFIDENTIAL. If you are not the intended recipient, you are hereby notified that any review, retransmission, dissemination, distribution, copying, conversion to hard copy or other use of this communication is strictly prohibited. If you are not the intended recipient and have received this message in error, please notify me by return e-mail and delete this message from your system. Ontario Power Generation Inc.