MEMO

Date: May 5, 2017

To: Steen Hume

From: Kim Marshall

Re: Fair Hydro Plan Impact on IESO Accounting Practices

The accounting opinion issued by KPMG to the Independent Electricity System Operator (IESO) indicates that the accounting practices and structures proposed in the Fair Hydro Act [INSERT LEGAL NAME] are consistent and compatible with the IESO's current financial accounting practices. As a result, the IESO can recognize a regulatory asset related to the variance account created by the proposed Act, and that the regulatory asset will no longer be included in IESO financial statements upon transfer of the variance account to the OPG Trust.

Based on the 11 indicators of control as defined in Section PS 1300 *Government Reporting Entity*, there is no evidence of control by the IESO for the OPG Trust either collectively or individually. 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.

The variance account created by the proposed Act is subject to rate regulation by the Ontario Energy Board and the variance account will be established with the right to collect funds against the variance amount in the future. In these circumstances, the IESO is able to establish a regulated asset, in accordance with Canadian public sector accounting standards.

Please find attached the analysis performed by KPMG based on the current understanding of the legislation.

Sincerely,

Kim Marshall

Vice President of Corporate Services and Chief Financial Officer