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July 17, 2017

PRIVATE AND CONFIDENTIAL

The Board of Directors of Independent Electricity System Operator
Toronto, Ontario

Ladies and Gentlemen:

We are writing this letter at your request in order to summarize several of the considerations applicable to our conclusion that we satisfy the applicable rules of professional conduct as regards our independence as auditor of Independent Electricity System Operator (IESO) up to the date of our auditors' report on the financial statements for the year ended December 31, 2016.

For your reference, the attached Appendix includes excerpts from the CPA Ontario Code of Professional Conduct (the Code). Passages in the body of this letter in italics also reflect excerpts from the Code.

Threats to independence

The Code refers to potential threats to independence, such as self-review, but recognizes that in most cases, such threats can be reduced to an acceptable level by safeguards, such as those outlined in the Appendix. As stated in the Code:

> *Independence is potentially affected by self-interest, self-review, advocacy, familiarity and intimidation threats. The mere existence of such threats does not per se mean that the performance of a prospective engagement is precluded. The undertaking or continuation of an engagement is only precluded where safeguards are not available to eliminate or reduce the threats to an acceptable level or where Rule 204.4 provides a specific prohibition.*

Safeguards

The section of the Code on safeguards specifically refers to non-assurance services, and the possibility of acceptable safeguards. We have concluded that the safeguards in place during the time period specified above were consistent with those outlined in the Appendix, and were sufficient to reduce the threats to our independence to an acceptable level. We have also determined that the services provided during such period were not subject to the specific prohibitions set out in the Code. As stated in the Code:

Subject to the specific prohibitions set out in Rules 204.4(22) to (34), a firm or a member of a firm may provide a non-assurance service to an assurance client or related entity, provided that any threats to independence have been reduced to an acceptable level by safeguards.....

The section of the Code on Management Function refers to the appropriateness, in most circumstances of extensive dialogue between the audit engagement team and management, as noted below. As stated in the Code:

The financial statement audit and review process involves extensive dialogue between persons on the engagement team and management of the audit or review client. During this process, management will often request and receive input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. The provision of technical assistance of this nature for an audit or review client is an appropriate method of promoting the fair presentation of the financial statements. The provision of such advice, per se, does not generally threaten the member's or the firm's independence.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to IESO within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation up to the date of our auditors' report on the financial statements for the year ended December 31, 2016.

OTHER MATTERS

This letter is private and confidential and is intended solely for use by the IESO board of directors in carrying out their responsibilities, and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, is not intended for, and may not be used by or relied upon by, any third party or for any other purpose.

Yours very truly,

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Selected Excerpts from the CPA Ontario Code of Professional Conduct

The CPA Ontario Code of Professional Conduct is found at the following link

https://media.cpaontario.ca/stewardship-of-the-profession/pdfs/CPA-Ontario-Code-of-professional-conduct.pdf

Threats to independence

Independence is potentially affected by self-interest, self-review, advocacy, familiarity and intimidation threats. The mere existence of such threats does not per se mean that the performance of a prospective engagement is precluded. The undertaking or continuation of an engagement is only precluded where safeguards are not available to eliminate or reduce the threats to an acceptable level or where Rule 204.4 provides a specific prohibition. (emphasis added)

Self-Review Threats

A self-review threat occurs when any product or judgment from a previous engagement needs to be evaluated in reaching a conclusion on the particular assurance engagement, or when a person on the engagement team was previously an officer or director of the client, or was in a position to exert significant influence over the subject matter of the assurance engagement. Examples of circumstances that may create a self-review threat include, but are not limited to:

- a person on the engagement team being, or having recently been, an officer or director of the client;
- a person on the engagement team being, or having recently been, an employee of the assurance client in a position to exert significant influence over the subject matter of the assurance engagement, or another person having the duties or responsibilities normally associated with such an employee;
- a member or firm performing services for an assurance client that directly affect the subject matter of the engagement; and
- a member or firm preparing original data used to generate financial statements or preparing other records that are the subject matter of the engagement.

Safeguards

Subject to the specific prohibitions set out in Rules 204.4(22) to (34), a firm or a member of a firm may provide a non-assurance service to an assurance client or related entity, provided that any threats to independence have been reduced to an acceptable level by safeguards, such as:

- policies and procedures to prohibit members of the firm from making management decisions for the client, or assuming responsibility for such decisions;
- discussing independence issues related to the provision of non-assurance services with the audit committee;
- policies within the assurance client regarding the oversight responsibility for provision of non-assurance services by the firm;
- involving another member of the firm who is not on the engagement team to advise on any impact of the non-assurance service on the independence of the persons on the engagement team and the firm;
- involving a professional accountant from outside of the firm to provide assurance on a discrete aspect of the assurance engagement;
- obtaining the client's acknowledgement of responsibility for the results of the non-assurance service performed by the firm;
- disclosing to the audit committee the nature of the non-assurance service and extent of fees charged; or
- arranging that the members of the firm providing the non-assurance service do not participate on the assurance engagement team. (emphasis added)

The section on "management function" has the following on exchanges between auditors and management

The financial statement audit and review process involves extensive dialogue between persons on the engagement team and management of the audit or review client. During this process, management will often request and receive input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. The provision of technical assistance of this nature for an audit or review client is an appropriate method of promoting the fair presentation of the financial statements. The provision of such advice, per se, does not generally threaten the member's or the firm's independence. (emphasis added)

Evaluation of significance of threats

If the threat is other than clearly insignificant, safeguards should be applied to reduce the threat to an acceptable level. Such safeguards might include:

- making arrangements so that such services are not performed by a person on the engagement team;
- requiring the client or related entity to create the source data for the accounting entries;
- requiring the client or related entity to develop the underlying assumptions;

  obtaining the views of another professional accountant;

  arranging for another firm to review a significant accounting treatment; or discussing a significant accounting treatment with the practice advisory services department of the member's provincial body. (emphasis added)

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Complex transactions

Preparing the journal entries for a complex transaction would likely create a self-review threat the significance of which could only be reduced to an acceptable level by applying safeguards that involve consultation with others, for example by:

— obtaining the views of another professional accountant;

— arranging for another firm to review a significant accounting treatment……; (emphasis added)