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May 10, 2017

The Honourable Glenn Thibeault
Minister of Energy
900 Bay Street
Hearst Block, 4th Floor
Toronto, ON M7A 2E1

Dear Minister Thibeault:

Re: Fair Hydro Plan Impact on IESO Accounting Practices

The accounting opinion issued by KPMG to the Independent Electricity System Operator (IESO) confirms the IESO's view that the accounting practices and structures proposed in the Fair Hydro Act, 2017 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 regulatory asset will no longer be included in IESO financial statements upon transfer of the variance account to a trust to be set up by OPG.

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 trust to be set up by OPG 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. KPMG has confirmed the IESO's view that in these circumstances, the IESO is able to establish a regulated asset, in accordance with Canadian public sector accounting standards.

Sincerely,

Bruce B. Campbell

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President and CEO
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