Message

From: Chan, David (ENERGY/MEDEI/MRI) [David.Chan@ontario.ca]
Sent: 2016-10-25 12:23:04 PM
To: Susan Nicholson [/O=IMO/OU=MSX1/cn=Recipients/cn=Susan Nicholson]
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

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

Hi Susan, I added the point we discussed, that the original $80M is to be amortized over 18 years (highlighted in grey).

Look forward to your feedback.

Thanks!
David

From: Chan, David (ENERGY/MEDEI/MRI)
Sent: October-25-16 12:15 PM
To: 'Susan Nicholson'
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Hi Susan, Thanks for prompt response - just to quickly recap our chat:

- The current expected average remaining service life of employees is 13 years
- The unamortized portion per IESO's audited 2016 financial statements is $47.353M (the original $80M is to be amortized over 18 years)
- The difference in discount rates as noted in email below (highlighted in green) is correct.

As indicated, it is not clear why the "$80M loss" got raised as an issue now, when IESO adopted PSAB many years back, and IESO's statements with clean audit opinion were published annually in in the Public Accounts of Ontario. However, as we both noted, this seems to be a bit of red hairing as IESO's costs are fully recovered from the rate base whether IESO moved to PSAB or not.

Please provide feedback before as I would like to share the above with our senior management.

Thanks
David

From: Chan, David (ENERGY/MEDEI/MRI)
Sent: Tuesday, October 25, 2016 10:38 AM
To: Lia Kosic
Subject: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Hi Lia, Hope you are doing well. We received the following questions from the Ministry of Energy, Office of the Chief Administrative Officer pertaining to the following news story (highlighted below), and are hoping to connect with you:

"As I understand it the 80M is related to an accumulated actuarial loss with shift from gAAP to PSAB. These losses are required to be charged and amortized over future years based on the average remaining service life of the employee group.

Can we look in the statements to find out what the amortization period is. Also what is the unamortized portion.

It is also likely due to a difference in the discount rate between the two standards. Any detail would help. "

My understanding from looking at the IESO statements is that:

- the total actuarial gains and losses are amortized over the expected average remaining service life of employees covered by the plan, but would appreciate your help in advising (a) what the current expected average remaining service life of employees assumed by IESO and (b) the unamortized portion.

- With respect to difference in discount rate, my understanding is that previous discount rate used was based on the market value of high quality corporate bond yields as at the measurement date. Under PSAB, the discount rate used by the IESO is based on the expected rate of return on plan assets as at the measurement date. Please advise if this is correct.

Due to the urgency to this request, your prompt reply is much appreciate.

Thanks
David

From: Kourakos, Georgina (ENERGY)
Sent: October-25-16 7:08 AM
To: @ENERGY-All
Subject: Ministry of Energy Top Issues - October 25, 2016

Good morning,

Here's what's making news:

- IESO reports $80M loss from accounting change - InsideToronto.com (CP)

IESO reports $80M loss from accounting change
InsideToronto.com
Tue Oct 25 2016
Section: News/Ontario

TORONTO - Ontario's efforts to ease the upward pressure on electricity rates has been dealt a setback by a change in accounting practices.

In the government's public accounts for 2015-16, the Independent Electricity System Operator reported a "previously unrecognized actuarial loss and past service costs" of just over $80 million.

The provincial agency which oversees Ontario's electricity market says it will raise fees it charges the power industry to recover the losses as part of its accumulated deficit charge.

Progressive Conservative researchers discovered the $80 million loss in the public accounts and the Opposition plans to raise the issue in the legislature today.

The Tories point out the loss more than offsets the $70 million the Liberals said would be saved over seven years under Ontario's new deal to purchase two terawatt hours of electricity annually from Quebec.

The Liberals are also removing the eight per cent provincial portion of the HST from electricity bills, and scrapping plans for more wind and solar power projects, to reduce system costs and ease upward pressure on rates.

The IESO, which combined operations with the now-defunct Ontario Power Authority in January 2015, had an accumulated deficit of $74 million and a net debt of $184 million, with revenues of $187 million.