

Message

From: Jordan Penic [/O=IMO/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=PENICJ]
Sent: 2016-10-26 11:14:29 AM
To: Susan Nicholson [/O=IMO/OU=MSX1/cn=Recipients/cn=Susan Nicholson]; Kim Marshall [/O=IMO/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=Kim Marshall9f5]
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Unless there are concerns, I would be happy with just sending this back as you've written.

From: Susan Nicholson
Sent: October 26, 2016 10:51 AM
To: Jordan Penic; Kim Marshall
Cc: Susan Nicholson
Subject: FW: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

For discussion:

2009 – pre-PSAB discount rate of 6.1% based on market value of high quality corporate bond yields as at the measurement date of September 30.
2010 – pre-PSAB discount rate of 5.8% based on market value of high quality corporate bond yields as at the measurement date of September 30.
2010 (restated) – post-PSAB discount rate of 6.75% based on the expected rate of return on plan assets as at the measurement date of September 30.
2011 – post-PSAB discount rate of 6.5% based on the expected rate of return on plan assets as the measurement date of September 30.

From: Chan, David (ENERGY/MEDEI/MRI) [<mailto:David.Chan@ontario.ca>]
Sent: October 26, 2016 10:31 AM
To: Susan Nicholson; Jordan Penic
Cc: Kim Marshall
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Hi All, They would also like to know the rate that was used the year prior to PSAB adoption.

Thanks
David

“Let us obtain the rate applied which gave rise to the \$80m(rate on plan assets)-post PSAB; and what would have been the rate if PSAB was not applied (rate on bonds)- pre PSAB.

Also the rate that was used the previous year - pre PSAB.”

From: Chan, David (ENERGY/MEDEI/MRI)
Sent: October-26-16 10:11 AM
To: 'Susan Nicholson'; Jordan Penic
Cc: Kim Marshall
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Susan, Focus is on the year when IESO adopted PSAB.

Thanks
David

From: Susan Nicholson [<mailto:susan.nicholson@ieso.ca>]
Sent: October-26-16 9:57 AM
To: Chan, David (ENERGY/MEDEI/MRI); Jordan Penic
Cc: Susan Nicholson; Kim Marshall
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

David – I am waiting to hear back from Jordan. In the meantime, are you looking for what the discount rate is based on or are you looking for a number in a specific year. As you are aware, the discount rate changes annually.

Susan

From: Chan, David (ENERGY/MEDEI/MRI) [<mailto:David.Chan@ontario.ca>]
Sent: October 26, 2016 9:45 AM
To: Susan Nicholson; Jordan Penic
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Susan, Thanks for forwarding request to Jordan. Going forward, will email Jordan directly and copy you.

Jordan, Look forward to hearing back.

Thanks
David

From: Susan Nicholson [<mailto:susan.nicholson@ieso.ca>]
Sent: October-26-16 9:42 AM
To: Jordan Penic
Cc: Chan, David (ENERGY/MEDEI/MRI)
Subject: FW: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Hi Jordan, I have requested that David send all his questions through you.

Susan

From: Chan, David (ENERGY/MEDEI/MRI) [<mailto:David.Chan@ontario.ca>]
Sent: October 26, 2016 9:31 AM
To: Susan Nicholson
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Good morning Susan, I received a question from our Office of Chief Administrative Officer (CAO) asking for the discount rate used by IESO pre-PSAB adoption and post-PSAB adoption.

I will call to follow-up.

Thanks
David

From: Chan, David (ENERGY/MEDEI/MRI)
Sent: October-25-16 1:37 PM
To: 'Susan Nicholson'

Cc: Jordan Penic; Lia Kasic; Mary Bernard; Kim Marshall; Chuck Farmer
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Susan, Thanks to the IESO team for prompt response. I have shared the information with our senior management and emphasized following key points:

- Adoption of PSAB by IESO happened a long time ago and related impacts were included in IESO's audited statements (and published annually as part of Ontario's Public Accounts)
- IESO's costs are fully recoverable from the rate base whether IESO moved to PSAB or not.
- IESO fee dropped from 0.137 cents per kilowatt hour in 2010 to 0.124 cents per kilowatt hour in 2015.
- IESO's proposal, if approved by the Ontario Energy Board, would see a further reduction to 0.113 cents per kilowatt (or approximately one-tenth of one cent per kilowatt hour).

Thanks again.

David

From: Susan Nicholson [mailto:susan.nicholson@ieso.ca]

Sent: October-25-16 12:33 PM

To: Chan, David (ENERGY/MEDEI/MRI)

Cc: Susan Nicholson; Jordan Penic; Lia Kasic; Mary Bernard; Kim Marshall; Chuck Farmer

Subject: FW: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

Hi David, I have made one correction to the second bullet below as it should read 2015 audited financial statements. Also, please note that the IESO has provided the key messages outlined below to the Ministry for communications purposes.

Thanks,

Susan

Further to the messages below, I would note that our fee dropped from 0.137 cents per kilowatt hour in 2010 to 0.124 cents per kilowatt hour in 2015. Our proposal, if approved by the Ontario Energy Board, would see a further reduction to 0.113 cents per kilowatt (or approximately one-tenth of one cent per kilowatt hour).

- This has been in our publicly issued audited financial statements ever since the change and therefore part of our ongoing annual review by the OEB. Totally public throughout and simply a function of change in accounting rules from commercial Generally Accepted Accounting Principles to Canadian Public Sector Accounting Standards determined to be more relevant to the IESO.
- This item was always part of our balance sheet under GAAP, the former accounting principles. The difference in moving to the new accounting principles is that we were required to separate it out and show it separately in our statements.
- IESO fees have been reduced over the period.

Background:

Effective January 1, 2011, the IESO adopted Canadian public sector accounting standards with a transition date of January 1, 2010. The adoption of PSAB was accounted for by retroactive application with restatement of prior periods subject to the requirements in Section PS 2125, *First-time Adoption by Government Organizations*. The corresponding

change to pension and other-post employment benefits resulted in previously unrecognized actuarial losses and past service costs of \$80,617 thousand at the date of transition being charged to the accumulated deficit.

The IESO includes a portion of the accumulated deficit resulting from the PSAB transition items in the annual proposed expenditures to the OEB for recovery through system fees.

From: Chan, David (ENERGY/MEDEI/MRI) [mailto:David.Chan@ontario.ca]
Sent: October 25, 2016 12:23 PM
To: Susan Nicholson
Subject: RE: Ministry of Energy Top Issues - October 25, 2016 (Urgent Request)

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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 **2015 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 haring 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 Koscic
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.

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