Memorandum

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To: THE AUDIT COMMITTEE OF
THE BOARD OF DIRECTORS
of the Independent Electricity System Operator

From: Kim Marshall
Vice President, Corporate Services and Chief Financial Officer

Date: July 19, 2017

Re: Fair Hydro Plan Accounting

The introduction of the Fair Hydro Plan (FHP) will result in a number of changes to the market accounts that are reported in our audited financial statements and in our quarterly statutory statements. The changes to the Rate Regulated Plan (RPP) or Global Adjustment smoothing are by far the largest changes to our accounting but the FHP will also change the Rural or Remote electricity Rate Protection (RRRP) program to provide distribution charge relief for the customers of the costliest LDCs. It will enhance the Ontario Electricity Support Program (OESP) and work to ensure the program uptake is as close as possible to 100%. And it will establish a new First Nations On-Reserve Delivery Credit.

The accounting for these changes and how they will be presented in the IESO's financial statements is already underway as some of these program changes were introduced effective May 1, 2017.

The changes to the OESP are designed to expand eligibility and increase credits to cover more low income Ontarians became effective May 1, 2017. Although the OESP will be funded by the provincial revenues eventually the initial funding from the IESO will come from the OESP variance account in the market books. The balance in the variance account was a liability $110.9 million as of March 31, 2017 (see attached appendix – Note 2 Market Accounts).

The changes to the RRRP will split the current program into three programs, two of which will be paid by provincial revenues and the third will be paid through a new RRRP rate. The new RRRP rate was effective on July 1, 2017. The variance account for RRRP will continue but only for the portion of the program that is financed through the rate set by the Ontario Energy Board. The portion that will be paid through provincial revenues will be settled in same invoicing period and therefore will not impact the variance account. The balance in the variance account was a liability of $2.7 million as of March 31, 2017 (see attached appendix – Note 2 Market Accounts).

The First Nations On-Reserve Delivery Credit is part of the vulnerable consumer programs and started on July 1. The program will be paid through provincial revenue and settled in the same invoicing period resulting in no new variance account on the IESO market books.

Although a reduced RPP rate was introduced on May 1, 2017, the actual changes the RPP or Global Adjustment smoothing program were effective on July 1, 2017, with many of the accounting changes expected to commence in August with the first transfer of the variance account to the financing entity (OPG Trust). The accounting for these transactions will be as follows each month:

1) Market invoicing will settle the generator contracts but receive a reduced amount from the LDCs. This amount will be recorded in the variance account as part of the regulatory asset.
2) The difference will be funded by IESO debt in the interim.
3) OPG will invoice the market for the financial management of the financing entity including any administration costs, the resupply of third party transactions and interest. This amount will be recorded in the variance account as part of the regulatory asset.
4) OPG Trust will purchase the regulatory asset. This will transfer the majority of risks and rewards associated with the asset to the OPG Trust, allowing IESO to derecognize the asset.
5) IESO will use the cash received from the transfer of the regulatory asset to repay the debt from step 2 above.
6) Any interest incurred by the IESO for our debt will also be recorded in the variance account as part of the regulatory asset.

In theory, the transfer of 100% of the regulatory asset to OPG Trust will not result in any additional variance amounts on the market books at each month end. The balance in the variance account as of March 31, 2017 was an asset of $72.4 million (including interest) and offset by the revolving line of credit (see attached appendix – Note 2 Market Accounts).