

Message

From: Kim Marshall [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=B63A22B42BF14587870D93119A054D88-KIM MARSHAL]
Sent: 2017-09-12 2:57:20 PM
To: LEE John -TREASURY [john.s.lee@opg.com]
CC: Anthony Martinello [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=3fb7d76317b34780b15d96309b995c31-Anthony Mar]; LAURETA LAPIRA May -TREASURY [may.lapira@opg.com]; RYFA Ken -TREASURY [ken.ryfa@opg.com]; WONG Leslie -LAWDIV [leslie.wong@opg.com]; GO Matthew -TREASURY [matthew.go@opg.com]; Michael Boll [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=4811917e15054407b665fe16d12ff415-Michael Bol]
Subject: RE: EXTERNAL – Re: IESO accounting issue with LCs

KPMG is not uncomfortable with the accounting, the caveat being it has to see the language in the contract and the regulation. I think the IESO issue is rather that we think there are other less expensive options that should be explored.

Kimberly Marshall | VP, Corporate Services & CFO

Independent Electricity System Operator (IESO) | T: (416) 969-6232 | C: (416) 545-7202
120 Adelaide Street West, Suite 1600, Toronto, ON M5H 1T1
Web: www.ieso.ca | Twitter: [IESO_Tweets](https://twitter.com/IESO_Tweets) | LinkedIn: [IESO](https://www.linkedin.com/company/ieso)

Corporate Services collaborates with you to deliver solutions and expertise that enable the IESO to achieve its goals.

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From: LEE John -TREASURY [mailto:john.s.lee@opg.com]
Sent: September 12, 2017 2:18 PM
To: Kim Marshall
Cc: Anthony Martinello; LAURETA LAPIRA May -TREASURY; RYFA Ken -TREASURY; WONG Leslie -LAWDIV; GO Matthew -TREASURY
Subject: RE: EXTERNAL – Re: IESO accounting issue with LCs

Kim:

Appreciate the work that Anthony has done to date.

With respect to the LC issue, it would be helpful that the discussion with KPMG takes place before Thursday morning Province meeting as it will likely come up for discussion.

We would be happy to participate in this discussion so that we can run this issue to ground before that meeting.

Let us know your thoughts on this approach and timing.

Thanks

John

From: LAURETA LAPIRA May -TREASURY
Sent: Tuesday, September 12, 2017 10:54 AM
To: Anthony Martinello
Cc: LEE John -TREASURY
Subject: RE: EXTERNAL – Re: IESO accounting issue with LCs

Hi Anthony,

Thanks for the update. I've cc'd John to include him in the loop as he needs an update for the Thursday risk mitigation meeting. Did KPMG give you a timeline of when they will advise you if there are accounting issues with the proposal?

On the matter of true-up mechanism and the reserve accounts, those mechanisms reside within the FHP Trust, so OPG cannot make use of them. Per my email below, the real issue is we have is on the accounting/consolidation and the negative credit rating implications. (i.e. OPG posting the LCs for non-rated LDCs when we don't have a business case as a commercial entity to provide the credit support will impact our ability to consolidate the Trust. Furthermore, this obligation will undermine the objective of having OPG ring fenced from the FHP activities and will also negatively impact OPG's credit ratings).

May

From: Anthony Martinello [mailto:Anthony.Martinello@ieso.ca]

Sent: Tuesday, September 12, 2017 10:15 AM

To: LAURETA LAPIRA May -TREASURY <may.lapira@opg.com>

Subject: EXTERNAL – Re: IESO accounting issue with LCs

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May,

We have not heard back in a formal manner from KPMG and will advise.

In general if the IESO is to post a letter of credit:

- there is likely a need for a new/updated regulation to be made to accommodate such action;
- the IESO and OPG will need determine what L/C amount is reasonable with supportive data/analysis to support the qual/quant of the amount;
- the annual costs to have the L/C would likely be scrutinized by stakeholders and externals – and value for money will be key etc;
- the IESO still needs to obtain KPMG's view on any acctg issues/impacts;
- we should consider if alternative instruments such as a letter of guarantee or other maybe be more cost effective than a letter of credit

As discussed last week – rather than rely on an IESO letter of credit:

- I suggested that OPG needs to revisit and determine on whether a) the true-up mechanism and/or b) the reserve account(s) mechanism could be utilized.....especially since these are both already built into the existing Fair Hydro act/regs. If not viable options, I suggested that OPG needs to explain why these two mechanisms cannot be utilized (e.g. is it an accounting issue, credit rating issue, interim funding issue?? Etc.). I think you mentioned that OPG could not fund the reserve account – but am not sure what this means.

Also, as discussed, after the initial 4 year moratorium, the Clean Energy Adjust amounts (post – 4 years) is simply a pass-thru from LDCs to the Financing Entity. The IESO is just a servicer and therefore the IESO has no obligation....which poses a question as to why does the IESO need to post a letter of credit.

Maybe the credit rating agencies may need more color on the IESO's role especially throughout this program given that the IESO will continue to run the electricity markets while also servicing the CEA.

Regards.

From: LAURETA LAPIRA May -TREASURY [<mailto:may.lapira@opg.com>]
Sent: September 11, 2017 4:28 PM
To: Anthony Martinello
Subject: RE: EXTERNAL – Re: IESO accounting issue with LCs

Hi Anthony – just wondering if you heard back from Michel on the accounting matter?

Per our discussion last week, OPG posting the LCs for non-rated LDCs when we don't have a business case as a commercial entity to provide the credit support will impact our ability to consolidate the Trust. Furthermore, this obligation will undermine the objective of having OPG ring fenced from the FHP activities and will also negatively impact OPG's credit ratings.

Without the IESO's support, we also expect the rating of the debt to be issued by the Trust to be negatively impacted. My understanding from our discussion last week is that the IESO will not suffer any similar impacts other than this potential issue to de-recognize?

From: Anthony Martinello [<mailto:Anthony.Martinello@ieso.ca>]
Sent: Friday, September 08, 2017 7:22 AM
To: LAURETA LAPIRA May -TREASURY <may.lapira@opg.com>
Subject: RE: EXTERNAL – Re: IESO accounting issue with LCs

No problem. I am in meetings this morning. How does today in afternoon work – say 2:30pm?

Regards.

From: LAURETA LAPIRA May -TREASURY [<mailto:may.lapira@opg.com>]
Sent: September 07, 2017 11:40 PM
To: Anthony Martinello
Subject: RE: EXTERNAL – Re: IESO accounting issue with LCs

So sorry Anthony, I was in meetings all afternoon. Can I call tomorrow morning after 10:30?

From: Anthony Martinello [<mailto:Anthony.Martinello@ieso.ca>]
Sent: Thursday, September 07, 2017 12:14 PM
To: LAURETA LAPIRA May -TREASURY <may.lapira@opg.com>
Subject: EXTERNAL – Re: IESO accounting issue with LCs

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May – please give me a quick call back 905-403-6944,... I have two additional points to discuss.

From: LAURETA LAPIRA May -TREASURY [<mailto:may.lapira@opg.com>]
Sent: September 07, 2017 8:45 AM
To: Anthony Martinello
Subject: RE: EXTERNAL – Re: IESO accounting issue with LCs

That's ok. I sent you an invite for 11 – talk then.

From: Anthony Martinello [mailto:Anthony.Martinello@ieso.ca]
Sent: Thursday, September 07, 2017 7:37 AM
To: LAURETA LAPIRA May -TREASURY <may.lapira@opg.com>
Subject: EXTERNAL – Re: IESO accounting issue with LCs

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Fyi My 10am was booked overnight for another meeting.

Regards.

From: may.lapira@opg.com
Sent: September 6, 2017 5:35 PM
To: Anthony.Martinello@ieso.ca
Subject: Re: EXTERNAL – IESO accounting issue with LCs

Sounds good, talk to you then!

Sent with BlackBerry Work

(<https://na01.safelinks.protection.outlook.com/?url=www.blackberry.com&data=01%7C01%7CAnthony.martinello%40ieso.ca%7C4bed977e4b1143e3637608d4f56f316d%7C7cd55abd63f243c58f4bd38ea458add8%7C0&sdata=ZysjxOxdP01U3rB%2Fg6VVHQIIRP0CjskCoCkCw74RoQU%3D&reserved=0>)

From: Anthony Martinello <Anthony.Martinello@ieso.ca>
Sent: Sep 6, 2017 5:34 PM
To: LAURETA LAPIRA May -TREASURY <may.lapira@opg.com>
Subject: EXTERNAL – IESO accounting issue with LCs

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Please call me @ 905-403-6944 at 10am or 11am tomorrow. Regards.

-----Original Message-----

From: LAURETA LAPIRA May -TREASURY [mailto:may.lapira@opg.com]
Sent: September 06, 2017 4:52 PM
To: Anthony Martinello
Subject: FW: EXTERNAL – RE: IESO accounting issue with LCs

Hi Anthony - can I give you a call tomorrow morning to chat about the IESO's accounting position/issue with this? I just want to get an understanding of what the issue IESO is facing so we can move it ahead. Not sure if you're the right person but I thought I'd try you first given Kim is busy. I am available any time in the morning of Thursday, Sep 7th.

Thanks,
May

May Laureta Lapira, CPA, CA | Senior Manager, Treasury | Ontario Power Generation
700 University Avenue, Toronto ON M5G 1X6 | Tel: (416) 592-3721 | Fax: (416) 592-7758 |E-mail: may.lapira@opg.com

-----Original Message-----

From: Kim Marshall [mailto:Kim.Marshall@ieso.ca]

Sent: Wednesday, September 06, 2017 7:36 AM

To: LAURETA LAPIRA May -TREASURY <may.lapira@opg.com>

Cc: LEE John -TREASURY <john.s.lee@opg.com>; Michael Boll <Michael.Boll@ieso.ca>; Anthony Martinello <Anthony.Martinello@ieso.ca>

Subject: EXTERNAL – RE: IESO accounting issue with LCs

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May, thanks for your email. Our view may be broader than accounting but happy to discuss. I am copying Michael Boll and Anthony Martinello to see if you can connect with the this week. My week is busy but could join a call early next week, thanks

Kimberly Marshall | VP, Corporate Services & CFO Independent Electricity System Operator (IESO) | T: (416) 969-6232 | C: (416) 545-7202

120 Adelaide Street West, Suite 1600, Toronto, ON M5H 1T1

Web:

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-----Original Message-----

From: LAURETA LAPIRA May -TREASURY [mailto:may.lapira@opg.com]

Sent: September 05, 2017 6:21 PM

To: Kim Marshall

Cc: LEE John -TREASURY

Subject: IESO accounting issue with LCs

Hi Kim,

John asked me to follow up on the potential accounting issue relating to the scenario where the IESO posts letters of credits for non-rated LDCs to address liquidity/credit risk. Is there someone in your team I can speak to so we can get an understanding of the potential issue? Pls let me know and I can arrange for a call with our auditors.

Thank you,
May Lapira

Sent with BlackBerry Work

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