Message

From: Michael Boll [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=4811917E15054407B665FE16D12FF415-MICHAEL BOL]
Sent: 2017-09-27 9:15:50 PM
To: Picard, Michel [mpicard@kpmg.ca]
Subject: RE: Fair Hydro question

Hi Michel,

The Ministry has raised the possibility of drafting the regulations such that the IESO would have the regulatory obligation to fund the costs, but rather than having to go through the global adjustment regulation, the IESO funded costs could simply be added to the IESO fair hydro variance and therefore form part of the regulatory asset.

This would be analogous to the IESO being able to add its borrowing costs related to the deferral amount to the regulatory asset, which is already included in the fair hydro regulation.

Would this variation still work from your perspective?

Regards,
Michael

From: Picard, Michel [mailto:mpicard@kpmg.ca]
Sent: September 21, 2017 10:30 AM
To: Michael Boll
Subject: RE: Fair Hydro question

Hi Michael,

I will check with Gale. My first reaction is that IESO may have to set-up a financial liability for the interest for the first 4 years. Will consult and revert back.

Michel

From: Michael Boll [mailto:Michael.Boll@ieso.ca]
Sent: Thursday, September 21, 2017 9:47 AM
To: Picard, Michel <mpicard@kpmg.ca>
Cc: Kim Marshall <Kim.Marshall@ieso.ca>; Anthony Martinello <Anthony.Martinello@ieso.ca>; Susan Nicholson <susan.nicholson@ieso.ca>
Subject: Fair Hydro question
Importance: High

Confidential

Michel,

There is a new element to IESO funding the financing entity's costs during the first four years that we would like your view on from an accounting perspective. Despite this being a recent ask from OPG, we are receiving pressure to provide an assessment of this new ask as soon as possible.

We understand that government is proposing changes to the Regulations under the Fair Hydro Act that would impose a "regulatory obligation" upon the IESO to pay an amount to the financing trust monthly over the first four years (the deferral period) equal to the financing charges actually incurred by the financing trust on account of interest (and not principal). Costs and taxes of the financing trust would also be included in the IESO's regulatory funding obligation. The IESO would require financing to bridge the gap between payment of this amount and recovery of the related GA amount. Either both of the interest cost and the funding receipt, or neither of them, will be counted for purposes of the true-up calculation.

The new element is that the IESO is being asked by OPG (due to a dealer/rating agency requirement to try to obtain a AAA rating) to provide security for this regulatory funding obligation in the form of a general security agreement charging all of IESO's assets, including in particular its present and future receivables and rights in relation thereto. The general security agreement will provide that on a monthly basis all receipts will be applied first by the IESO on account of the regulatory obligation.

The proposed Regulations under the Electricity Act would provide that the amounts paid are recoverable by the IESO under the GA in Section 25.33 of the Electricity Act.

By operation of the Fair Hydro rate cap, this additional GA amount will lead to an increased negative variance and will give rise to a regulatory asset, which, in the ordinary course would be Transferred to the financing trust. The purchase price payable to the IESO would retire the related financing.

Thank you,

Michael Boll | Associate General Counsel
Independent Electricity System Operator (IESO) | T: (416) 969-6023
120 Adelaide Street West, Suite 1600, Toronto, ON, M5H 1T1

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