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: May 5, 2017

Re: Update on IESO Role In Global Adjustment Smoothing

Please find attached the opinion issued by KPMG with respect to the accounting for the transactions under proposed legislation for Global Adjustment (GA) smoothing. The opinion reviews the three issues pertaining to the accounting treatment and provides both Managements' conclusions and KPMG's conclusions on each of the issues (please refer to pages 10, 16 and 23 of the attached). The opinion does the following:

1. Documents KPMG's concurrence with management's proposed accounting treatment as being in line with the changes to the accounting policies that were discussed and approved for 2016. With respect to the proposed legislation for GA smoothing:

    a) The variance account due to differences between amounts paid to generators and collected from LDC's arising from the legislation will be accounted for as a regulatory asset. The criteria for determining a regulatory asset will be met as the variance account is subject to rate regulation by the OEB and will be established with the right to collect funds against the variance amount in the future;
    b) The regulatory asset will be transferred to the OPG Trust. The OPG Trust will not be controlled by the IESO and therefore the activities of the Trust will not be subject to consolidation into IESO accounts. The 11 indicators of control are included in the opinion (please refer to pages 12 - 16); and
    c) The regulatory asset will be derecognized upon transfer to the OPG Trust. This transfers the right to collect funds in the future to the OPG Trust.

2. The analysis performed by KPMG and management is based on our current understanding of the legislation. The analysis may be revised based on the final legislation and any other information.

3. The analysis is presented at this time to the Audit Committee for its information, in advance of the legislation being introduced. The agenda item will be considered in further detail at the June Audit Committee.

The KPMG opinion is being shared with Cabinet as supporting information for the proposed legislation so as to inform them of the accounting implications for IESO and ultimately for consideration of Government's own financial statements. The Provincial Comptroller and the Auditor General may have their own analysis and views.

The opinion should provide Committee members with a degree of assurance that the proposed accounting treatment is generally consistent with their understanding to date of how this initiative would impact IESO's financial statements and financial operations.

The June meeting will provide the opportunity to review in detail the legislation, implementation plans, any residual risks, and the accounting treatment pertaining to this particular initiative.