Message

From: Jordan Penic [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=7D23BCD450594583BB40B447B35485DA-JORDAN PENI]
Sent: 2018-03-27 3:10:10 PM
To: Nekolaichuk, Colin (ENERGY) [Colin.Nekolaichuk@ontario.ca]
Subject: RE: Media inquiry--Auditor general's claims

Hi Colin – just a quick note to let you know that Geoff won't be running an article today. We've instead decided to call him anyways to give him our perspective in case he needs to write about it in the future.

From: Nekolaichuk, Colin (ENERGY) [mailto:Colin.Nekolaichuk@ontario.ca]
Sent: March 27, 2018 2:12 PM
To: Jordan Penic
Subject: RE: Media inquiry--Auditor general's claims

Hi Jordan,

This looks really strong. Though I don't know if IESO is addressing this question: "What is the response to the auditor general's audit of the IESO, and of the accounting of it and the Fair Hydro Plan?"

Is there anything you can add on that piece?

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From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: March-27-18 1:51 PM
To: Nekolaichuk, Colin (ENERGY)
Subject: RE: Media inquiry--Auditor general's claims

IESO Responses:

Has the province considered the risks of the fact that "the assets of IESO have been pledged as collateral and security against the fair hydro trust"?

- The IESO has reviewed the Auditor General's recent recommendation and will disclose the "pledging of market receivable as collateral" in its 2017 financial statement notes.
- The security will only be called if the IESO fails to pay carrying costs to the Fair Hydro Trust in a month, which is highly unlikely, as the amount of carrying costs is small relative to the entire amount settled each month.
    - To put this in perspective, the carrying costs in December 2017 were $4 million, and the IESO does about $1.4 billion in transactions every month.
- Further, Moody's and DBRS have not changed the IESO's credit rating despite this security.
- Providing this limited security helped the Fair Hydro Trust obtain a higher credit rating, reduce financing costs, and ultimately minimize costs to Ontario consumers.

More information:

- When the IESO considered this previously, the IESO determined that providing the security for the 4-year period (until July 2021), during which carrying costs would be paid, was the right thing to do. This decision was made after careful consideration and consultation with external professional advisors.

Why hasn't this been disclosed in financial statements, as the auditor asked?

- With respect to the disclosure on the "pledging of market receivable as collateral", this is the first year that it could be noted in our Financial statements and the IESO will disclose it.

If referring to the changes made in 2017:

- It is important to note that the recognition of rate regulated assets and market accounts were made after extensive discussions and deliberations with external professional advisors and the IESO Board of Directors.
    - After extensive review, the Board of Directors and management of the IESO continue to believe that the policies that the IESO adopted in 2017 are appropriate and in accordance with Canadian Public Sector Accounting Standards.
    - The recognition of regulatory assets and liabilities better reflect the economic substance of IESO's operations and enhance the relevance, transparency and accountability of our financial reporting.
    - Further, these changes bring the IESO in line with other independent system operators across North America.

What is the response to the auditor general's audit of the IESO, and of the accounting of it and the Fair Hydro Plan?

- The Auditor General recently undertook a special audit of the IESO's 2017 financial statements. The IESO welcomes the report of the Auditor General and values her review and we are already hard at work to implement some of the recommendations included in the draft audit report.
- Over the past few months, the IESO has worked cooperatively with the Auditor General in support of her special audit.
    - Over the twelve week period, IESO staff met with the Auditor General and her staff on over 40 occasions and responded to over 225 information requests.
    - The IESO arranged for working accommodations for seven OAGO staff on IESO premises, complete with access to a private meeting room for their sole use, as well as direct access to IESO employees.
    - The IESO designated a staff member to assist in coordinating meeting and information requests to ensure they were done in a timely manner.
    - Any information that was shared with KPMG along with all other information relevant to the 2017 financial statements was also shared with the OAGO.

- In addition to the meetings held with IESO staff, the IESO also complied with numerous requests from the Auditor General to attend meetings of the IESO's Audit Committee and the full IESO Board of Directors.
- This spirit of cooperation is one that the IESO has followed in all of its previous engagements with the Auditor General and her office, including discussions in 2017 regarding changes in accounting policies at the IESO.

From: Zochodne, Geoff
Sent: Tuesday, March 27, 2018 11:09:47 AM (UTC-05:00) Eastern Time (US & Canada)
To: Media; Colin.Nekolaichuk@ontario.ca; Media@OPG.com
Subject: Auditor general's claims

Hello,

My name is Geoff Zochodne and I'm a reporter for the Financial Post.

I'm working on a story about the auditor general's recent special audit of the IESO, and particularly that creditors could have claims before generators for the Fair Hydro Trust. This was outlined during a recent meeting of the public accounts committee: http://ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&Date=2018-03-21&ParlCommID=9001&DocumentID=34777

Has the province considered the risks of the fact that "the assets of IESO have been pledged as collateral and security against the fair hydro trust"? What is the response to the auditor general's audit of the IESO, and of the accounting of it and the Fair Hydro Plan? Why hasn't this been disclosed in financial statements, as the auditor asked?

My deadline is 4:30.

Geoff Zochodne
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