ONTARIO POWER GENERATION

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FOR INFORMATION to the Special Committee of the Board

April 19, 2017

ONTARIO'S FAIR HYDRO PLAN
OPG Accounting Considerations

REASON FOR REPORT

The purpose of this submission is to provide the Special Committee with the accounting considerations related to the Ontario Fair Hydro Plan to support consolidation of the Trust within OPG Inc.

CONCLUSIONS

OPG and Ernst & Young (EY) have agreed on a set of structural and operating criteria that the Financing Entity Trust must contain in order to demonstrate control by OPG to achieve the accounting outcome of a consolidation of the Trust into OPG Inc. Consolidation can be achieved assuming the criteria is met as a result of legislation (in progress), resulting Regulations (not drafted) and creation of Trust documentation (not drafted)

HIGHLIGHTS

Accounting Objectives:

1. Consolidate the Trust's assets and liabilities with OPG Inc. (to be consolidated by the Province)
2. Match "right to collect" intangible asset purchased from the IESO with the capital raised by the Trust
3. Match interest expense of debt raised with interest income earned and received (in cash) for deferral amounts (to minimize impact to net income)
4. Variability of Net Income returns based on management fees earned and performance risks achieved

Key Accounting Risks:

1. Can OPG demonstrate control of Trust to justify consolidation? – key Province requirement
2. Requirement to see all components (Legislation, regulations, principle agreements) to ensure required accounting criteria are reflected. Not all available as yet.
3. Co-ordination of OPG, IESO, Province's auditors for alignment

Coordination with EY:

1. EY has reviewed and agreed to list of attached criteria (See Appendix 1) to support accounting basis for consolidation (completed in February)
2. OPG/EY have reviewed early drafts of Legislation to ensure accounting considerations are addressed (work in progress – not all criteria embedded)
3. Balance of criteria to be embedded in Regulation/Trust documents to be developed
4. EY has been requested to provide 'formal communication' by May 1 (co-ordination between OPG auditors and IESO auditors ongoing as to form)
5. Continuing dialogue with EY as issues arise in real time

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APPENDICES

1. Appendix 1 –Terms necessary for OPG to consolidate the Global Adjustment Trust