ONTARIO POWER GENERATION

FOR APPROVAL by the Audit & Finance Committee

November 11, 2015

Pre-approval of 2016 Ernst & Young Services

DECISION REQUIRED

Subject to the Board of Director's approval to retain Ernst & Young (E&Y) as OPG's auditor for 2016, the purpose of this report is to recommend that the Audit and Finance Committee (AFC) approve

a) The proposed audit, audit-related, and other services to be provided by E&Y for 2016;
b) Delegate certain pre-approval authority to the Chair of the AFC as allowed by the AFC charter; and
c) Review the draft 2016 engagement letter.

In accordance with the AFC charter, the AFC is required to

a) Recommend to the Board of Directors the external auditor to be nominated and the compensation; and
b) Pre-approve all services provided by the external auditors.

The detailed schedule of audit, audit-related, and other services to be provided by E&Y for 2016, and their related fees, is included in this submission for the AFC to review.

ISSUE

In accordance with the AFC charter, the AFC is required to pre-approve all services provided by the external auditor. The charter specifies that the AFC may delegate such pre-approval authority to a member of the AFC.

Management recommends that the AFC pre-approve audit, audit-related, and other services for 2016 as detailed in the attached. The total fee proposed by E&Y for 2016 for these services is $3,103,000. The proposed fee consists of:

- Audit and audit-related services of $2,928,000;
- Tax services of $150,000;
- Non-audit services of $25,000.

In accordance with the AFC charter, OPG recommends that the Chair of the AFC be delegated authority to pre-approve incremental fees for audit and audit-related services up to an aggregate limit of $250,000 per year. This would include new engagements or changes in scope of pre-approved engagements that may arise during the year.

ANALYSIS

<u>2016 Audit, Audit-related, and Other Services to be provided by E&Y</u>

Management recommends that the AFC pre-approve audit, audit-related, and other services for 2016. There are no new engagements requested for 2016 compared to 2015. Several subsidiary and contract audits are no longer required which results in a reduction of fees of $110,000 for 2016.

Management recommends that the AFC recommend to the Board of Directors' to approve the proposed fee of $3,103,000 to E&Y for audit, audit-related, and other services for 2016, compared to the total forecasted fee of $3,587,000 for 2015.

E&Y's base fee for the audit of OPG's consolidated financial statements and review of the unaudited interim consolidated financial information is $1,125,000 and $160,000, respectively. The total base fee increased by 5% or $65,000 to $1,285,000, which is the first increase in OPG base fee since 2012.

The decrease in 2016 fees is mainly attributable to lower 2016 estimated fees for audit-related services for IFRS conversion work in support of the Province's financial reporting requirements and other engagements that are not required for 2016, partially offset by the increase in fees for several reoccurring engagements.

The fees for these engagements have not increased for several years. Excluding engagements no longer required, the net increase in fees for other legal entity and regulatory-related audits is $87,000. The proposed 2016 fees are itemized in the attached schedule.

In 2015, Management has evaluated the fees charged by E&Y for audit and other services by benchmarking them against the fees for OPG's peers. Benchmarking results showed that the fees charged to OPG for 2014 were lower than the average. As such, Management believes that the proposed increase in E&Y's fees for 2016 is supportable.

The following are the results of OPG's benchmarking of E&Y fees.

Measure	OPG's Ranking out of 11*	OPG	Highest of Peers	Average of Peers	Lowest of Peers
Audit Fees as a % of Revenue	7th	0.046%	0.113%	0.052%	0.011%
Total Fees as a % of Revenue	7th	0.050%	0.137%	0.065%	0.013%
Audit Fees as a % of Total Assets	10th	0.005%	0.030%	0.013%	0.003%
Total Fees as a % of Total Assets	9th	0.006%	0.037%	0.016%	0.004%

NOTE: Based on 2014 data.
* For ranking, 1st indicates the highest fees, therefore the most expensive audit, and 11th indicates the lowest
** 1 USD – 1.1601CAD as at December 31, 2014

Delegation of the Pre-approval Authority for Incremental Audit Services to the AFC Chair

OPG recommends that the AFC delegate to the AFC Chair pre-approval authority of additional fees for audit and audit related services that arise during the year, up to an aggregate of $250,000 to simplify the process when new audit requirements or scope changes occur. Based on benchmarking with several of OPG's peers, this is a common delegation practice with other entities. All incremental fees in excess of this limit will continue to be subject to AFC approval, and all pre-approved services will continue to be reported to the AFC as part of the quarterly E&Y fee update. All non-audit services will be subject to approval by the AFC.

Draft Engagement Letter

The draft engagement letter from E&Y for 2016 is attached. The letter is consistent with 2015 with no material changes to terms and conditions.

RECOMMENDATION / RESOLUTION

That the Audit & Finance Committee:

- Approve the audit, audit-related, and other services proposed by E&Y for 2016 and recommend to the Board of Directors' to approve the total compensation proposed by E&Y for 2016, subject to the Board of Directors' approval to retain E&Y as OPG's auditor for 2016.
- Delegate the pre-approval authority to the AFC Chair for incremental audit and audit-related services fees that may arise during the year, up to an aggregate limit of $250,000.

Recommended by:	Approved for submission by:
"Original signed by:"	*"Original signed by:"*
Beth Summers SVP, Chief Financial Officer	Jeff Lyash President and CEO

APPENDICES

1. Proposed 2016 Ernst & Young Fees Schedule
2. Draft 2016 Ernst & Young Engagement Letter