Message

From: LIU Sheen -TREASURY [/O=OH/OU=TORONTO/CN=RECIPIENTS/CN=204391]
Sent: 30/08/2017 6:08:51 PM
To: HARTWICK Ken -FINANCE [/o=OH/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=217097]
CC: LEE John -TREASURY [/o=OH/ou=Toronto/cn=Recipients/cn=366646]; RYFA Ken -TREASURY [/o=OH/ou=Toronto/cn=Recipients/cn=792883]; WONG Leslie -LAWDIV [/o=OH/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=217803]; LADAK Lubna -FIN & C CTRL [/o=OH/ou=Toronto/cn=Recipients/cn=494214]; LAURETA LAPIRA May -TREASURY [/o=OH/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=215415]
Subject: RE: Fees rider - accounting issues and considerations
Attachments: EXTERNAL – RE: OFA Feedback re Fair Hydro Plan

Ken,
Further to your discussion with John L, please be advised that OFA has reviewed the fee section of the draft regulation we originally proposed and they have confirmed it's reasonable.

Attached for your reference please find the email confirmation from OFA. (Note there is only one minor comment/edit from OFA, which is just a clarification)

Sheen

EXTERNAL – RE:
OFA Feedback r...

From: LAURETA LAPIRA May -TREASURY
Sent: Wednesday, August 30, 2017 4:49 PM
To: Brittany Keenan <Brittany.Keenan@ca.ey.com>
Cc: HARTWICK Ken -FINANCE <ken.hartwick@opg.com>; Tracy.Brennan@ca.ey.com; LEE John -TREASURY <john.s.lee@opg.com>; RYFA Ken -TREASURY <ken.ryfa@opg.com>; WONG Leslie -LAWDIV <leslie.wong@opg.com>; LIU Sheen -TREASURY <sheen.liu@opg.com>; LADAK Lubna -FIN & C CTRL <lubna.ladak@opg.com>
Subject: Fees rider - accounting issues and considerations

Hi Brittany,

Further to our discussion earlier today, could you please take a look at the summary we provided below and let us know if you are in agreement? We have a meeting tomorrow morning at 8 am and it would be greatly appreciated if you can let us know your thoughts before then. Thank you!

The two key accounting issues/considerations we have with the current draft of the Fees rider are as follows:

1. Fixed fee = cost of services + a rate of return does not reflect market practice for these types of services.

   Accounting Issue: A market-based fee structure is required for OPG to consolidate the trust as it is needed for OPG to meet the control criteria of being able to (1) affect the amount of returns and being (2) exposed to variable returns from our involvement with the Trust.

2. OEB role approving the structure and amount of fees removes OPG ability to affect returns received from the Trust.

Accounting Issue: The OEB not being bound by OPG's proposed methodology and benchmarking undermines OPG's ability to affect the amount of returns OPG receives from the Trust. If the OEB can change the methodology and/or benchmarking through their role as reviewer and approver, OPG's fees are dependent on OEB and we wouldn't meet the criterion for consolidation of the Trust.

The over-arching consideration for OPG to be able to prove that we have control over the Trust is that the structure and terms of the agreement need to be something our Board would approve i.e. on commercial terms.

I listed 2 of the 3 criteria for control above. The last one is (3) OPG has power over the Trust which in our accounting memo, we argued that we meet this criterion because we make the decisions on the key activities of the Trust (i.e. capital and funding decisions through the financing plan which does not required approval from the Minister).

Based on the current wording of the Fees Rider regulation, EY doesn't seem to think that we can support our conclusion that OPG can consolidate the Trust.