

ENERGY media calls

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Hi all,

Just one media request to flag, coming in from IESO. Matt McClearn from The Globe had some follow-up questions last week. The summary of the request is below.

Let us know if you have any questions.

Cheers,
Colin

Agency: IESO

Topic: IESO accounting change

Reporter/Outlet: Globe and Mail

Context:

The reporter's questions all revolve around a statement made by Peter Gregg at the SCOPA in late February:

Mr. Peter Gregg: There's obviously awareness of decisions that are being made out in the broader public sector, but I would say that the board, most particularly the audit committee, when considering the change to rate-regulated accounting, did not do it on the basis of having to do it for the fair hydro plan. Management was asked to look at this—regardless of fair hydro, regardless of anything like that—"Is this the right thing to do?"

Questions:

- Who asked IESO management to consider changing to rate-regulated accounting?
- When was this request made, and in what form?
- Why was the request made?
- During what period did the IESO consider making the change?
- Mr. Gregg said that adopting rate-regulated accounting "also gave the ability for us to more appropriately disclose the \$17 billion of market activity that comes through our systems." Please explain the connection between adopting market accounts and adopting rate-regulated accounting?

Responses:

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An internal review of IESO's accounting policies was initiated in early 2017 as a result of a conversation with the Office of the Provincial Controller. The IESO worked with KPMG on the review and determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in the IESO financial statements. Throughout the IESO's consideration to change accounting practices the IESO was also engaged with the government and its external auditors to ensure that any change would be able to accommodate current and future government policy, including the Fair Hydro Plan.

In late February IESO management discussed the review of accounting policies with the IESO's Audit Committee, a sub-committee of the IESO's Board of Directors. At this meeting, the Committee asked management to undertake further work and to report back with a recommendation. When undertaking this work, the Committee asked that management consider the changes on their own, irrespective of the Fair Hydro Plan, in order to determine whether they were suitable for the IESO. This is what Mr. Gregg is referring to in the Standing Committee on Public Accounts quote referred to in your email.

This request from the Audit Committee to management was made to ensure that the changes to the accounting policies were appropriate and suitable for the IESO. Ultimately, the IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees. Additionally, the IESO determined that recognizing regulatory assets would provide more transparency into the substance of certain accounts it oversees. The new accounting policies were adopted on March 15, 2017.

The IESO's market accounts demonstrate the amounts due to and from market participants. The IESO records its regulated assets and liabilities within its market accounts, which in 2016 and 2017 included the deferred Global Adjustment variance, the Regulated Price Plan (RPP) variance, the Ontario Electricity Support Program (OESP) variance, and the Rural or Remote Rate Protection (RRP) variance. As a rate-regulated entity, the IESO establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings.

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