Ontario

GA Smoothing – IESO Considerations

- The electricity act enables the IESO to recover from ratepayers, through its billing and settlement systems, amounts paid to generators, distributors or other contracted entities.
- The IESO believes reflecting market balances and regulated assets is a more appropriate presentation for its financial statements going forward.
- IESO is characterized as a Other Government Organization (OGO) and consolidated on a line by line basis into the Provincial books.

Issue	Response
1. Can the IESO adopt regulatory accounting	• Public sector accounting does not address regulated assets. • Guidance from other accounting bodies can provide guidance. • US Federal Accounting Standards Advisory Board (FASB), US Governmental Accounting Standards Board (GASB) and International Accounting Standards Board (IASB) do provide guidance. • FASB accounting standard 980 and IASB have specific references that support our approach. Conclusion: There is a hierarchy of accounting principles that support this approach.

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2. Can the IESO recognize the GA deferral as a regulatory variance account	Criteria for recognition are: • Rates are established by or are subject to approval by an independent, third-party regulator. • Rates are designed to recover the specific regulated business-type activity's costs. • In view of demand, it is reasonable to assume that rates will be set to recover the regulated business-type and can be collected from customers. Conclusion: Currently rates are approved by the OEB, legislation creates the right to collection, currently and in the future. The IESO can recognize this as a regulatory asset.
3. Can the IESO sell the variance account related to the deferral of the annual Global Adjustment account	• The sale of the deferral account to OPG Trust must be structured as an absolute assignment of future economic benefits of the Asset with no obligations, rights or benefits remaining of IESO. • This represents a sale of the future right to collect these amounts from the ratepayer. Conclusion: Based upon proposed terms of the sale agreement, there would be no future economic benefit for the IESO. Risk and rewards is transferred to OPG Trust.