Rate-Regulated Accounting and Public Sector Accounting Standards

- The Province prepares its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS) and the transactions resulting from the enactment of the Act and its related regulations will be reported in accordance with PSAS

- The Province receives the final year-end audited reports from its consolidated organizations (of which the Independent Electricity System Operator (IESO) is one) for the purpose of incorporating the assets, liabilities, revenues and expenses of those entities within the government's financial statements

- For the purposes of consolidation, the Province accepts the opinion of the entity's independent auditor as issued when considering whether there is any material misstatement in the entity's financial statements requiring adjustment to the extent that the reporting is consistent with the Province's accounting policies

- The use of rate-regulated accounting by government organizations controlled and included in the financial statements of the Province is not new and has not historically been subject to adjustment or the basis for any qualification by the Office of the Auditor General
  - IESO's adopted of rate-regulated accounting resulted in recognition of rate regulated assets for unrecovered smart metering expenses and PSAB transition items related to pension and post employment benefits

Rate-Regulated Accounting and Public Sector Accounting Standards

- While PSAS are silent on the use of rate-regulated accounting; however, there is acknowledgement within the Handbook that it does not provide guidance on all possible transitions and notes that it is necessary and appropriate to refer to other sources of guidance:
  - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, <u>matters may arise that are not specifically addressed in the primary sources of GAAP</u>. It is <u>necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters</u>, or when additional guidance is needed to apply a primary source to specific circumstances.*
- If the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met, rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers
- The Act and its related regulations enable a current reduction in electricity rates for certain classes of customers and the framework for the current reductions to be repaid in the future by rate payers
  - The Act and its related regulations do not prescribe the accounting to be followed