IESO

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Issue #2: Can the IESO recognize deferral or variance accounts related to the deferral of the annual Global Adjustment account as a regulatory asset on its statement of financial position?

As described in issue #1, US GAAP includes special accounting provisions that are applicable to entities with activities that are subject to rate regulation. The result is that rate regulated entities are required to recognize regulatory assets and liabilities provided the following three criteria are met:

ria	Comment	Evaluation
entity's rates for regulated services or ucts provided to its customers are blished by or are subject to approval by dependent, third-party regulator or by its governing board empowered by statute ntract to establish rates that bind omers.	IESO has unrecognized variance accounts related to the MDMR (smart meters), that have been approved by the OEB in accordance with the Electricity Act and the OEB Act (see Appendix B). It is important to note that Hydro One and OPG are both consolidated into the province's books, are both regulated by the OEB and their respective regulatory assets and liabilities are reported in the province's books.	Met
regulated rates are designed to recover pecific entity's costs of providing the ated services or products.	Currently, the rates approved by the OEB are designed to recover the IESO's costs of providing the regulated services and the pass-through related to the energy purchased from the generators. The contemplated transaction is based on the fact that the OEB would grant generic deferral or variance accounts to capture the difference between the amounts paid to generators and others, and the amounts collected in rates. Furthermore, the interest and ancillary costs related to the contemplated transaction would also be included in future rates charged to customers. In summary, the legislation would create a right to collect the incurred costs.	Met
w of the demand for the regulated ces or products and the level of petition, direct and indirect, it is onable to assume that rates set at levels will recover the entity's costs can be ged to and collected from customers. criterion requires consideration of	Since the deferral or variance accounts would be sold to the OPG Trust at least on a monthly basis and cash would be received on the same day, this criteria would be met. This criteria would need to be monitored on a yearly basis to ensure	Met

ipated changes in levels of demand or petition during the recovery period for any alized costs."	that IESO and the OPG Trust would be able to recover the future deferred amount taking into account the levels of demand or competition during the recovery period.	
clusion: Since the three criteria are met, IESO should be able to adopt the guidance in ASC 980.		