FW: E&Y

From: "Katona, Keley (ENERGY)" <keley.katona@ontario.ca>
To: "Imbrogno, Serge (ENERGY)" <serge.imbrogno@ontario.ca>
Date: Mon, 23 Jan 2017 18:28:56 -0500

From: Thompson, Erin (ENERGY)
Sent: January-23-17 5:26 PM
To: Katona, Keley (ENERGY)
Cc: Pagel, Alexa (ENERGY); Sermat-Harding, Kaili (ENERGY); Syed, Usman (ENERGY)
Subject: FW: E&Y

Hi Keley – see below clarification.

- Currently, the IESO accounts conservation costs as an asset. At the end of every month, the IESO takes the sum of amounts requested for reimbursement (mostly from LDCs) and includes it in the global adjustment charged to customers

- In 2013, the former Ontario Power Authority's (OPA's) external auditors, KPMG, LLP, provided its opinion that OPA can continue to record amortized conservation costs as assets, provided that the recovery of conservation costs and related interest charges are "guaranteed" through regulation.

- At the time, staff at the Office of the Provincial Controller Division (OPCD) also agreed with the view that amortized conservation costs can be considered as assets, if related interest charges are guaranteed through regulation.
  - OPCD staff however noted that the Auditor General (AG) may disagree with considering amortized conservation costs as assets.
  - It was also flagged that the AG may not view this proposal favourably given that in an amortized scenario overall costs in the longer run would be higher (due to interest charges)

- E&Y's advice is consistent with previous advice from KPMG in that conservation costs can be considered as assets. The specific time period (10 or 15 years) would be a policy decision and would not be constrained by accounting principles.

From: Katona, Keley (ENERGY)
Sent: January-23-17 3:18 PM
To: Thompson, Erin (ENERGY)
Cc: Sermat-Harding, Kaili (ENERGY); Pagel, Alexa (ENERGY)
Subject: RE: E&Y

Thanks for this. The last bullet is a bit confusing, given the proposal didn't seem to work before. Does the E&Y advice imply that we can amortize the conservation costs over a 10, 15 year period, etc?

From: Thompson, Erin (ENERGY)
Sent: January-23-17 12:50 PM
To: Katona, Keley (ENERGY)
Cc: Sermat-Harding, Kaili (ENERGY)
Subject: RE: E&Y

Hi Keley – see our summary below. As you know, we are scheduling a meeting with Kim Marshall at IESO tomorrow to discuss.

Thanks,
Erin

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Accounting of Conservation Costs - Summary of Ernst and Young's accounting advice to the IESO

- Context: Currently, the IESO accounts CDM costs as an asset. At the end of every month, the IESO takes the sum of amounts requested for reimbursement (mostly from LDCs) and includes it in the global adjustment charged to customers. IESO receives the appropriate funds in the subsequent month. CDM costs are treated as an asset because ~~of the timing of the reimbursement, which is one month following the incurred CDM costs.~~ recovery is guaranteed via legislation and IESO has direct access to the funds.

- The Scope of Ernst and Young's (EY) work was to assess the accounting implications of amortizing conservation costs (**see attached**).
- IESO follows CPA Public Sector Accounting Standards (PSAS) who do not provide any specific guidance on rate recovery assets (e.g. CDM, electricity supply contracts). In general, EY's approach was to use their professional judgement to assess if PSAS principles are being met. EY also considered a number of other accounting standards in their assessment.
- A key question that EY analyzed is whether CDM costs under an amortized scenario could still be considered an asset. In this regard, EY notes that *" In evaluating the costs incurred by the IESO to reimburse the LDCs, an argument could be made to support the recognition of the costs as an asset as the costs meets the three essential characteristics prescribed by PS 100".* The three characteristics include:
  - Future economic benefit - IESO expect to generate future economic benefit from the reimbursement of amortized CDM costs, i.e. IESO has the ability under the current regulatory framework to recover reasonable costs through GAM.
  - IESO **controls access** to the recovered funds.
  - Transaction or event giving rise to IESO's control has already occurred- i.e, the CDM costs being amortized have been incurred
- EY also provide some commentary on the two types of assets; financial (e.g. cash) and non-financial (e.g. tangible assets). EY suggest that amortized CDM costs would fall into non-financial assets.
- EY note that costs related to interest charges may also be able to considered as an asset if the Minister revises the calculation of global adjustment (we are assuming this would happen via legislative changes).
- EY's advice is consistent with advise provided by KPMG to the former OPA (in October 2013). KPMG's response was in an email format (**see attached**) and wasn't as detailed as EY's.

From: Thompson, Erin (ENERGY)
Sent: January-23-17 11:11 AM
To: Katona, Keley (ENERGY)
Subject: RE: E&Y

Hi Keley – staff have prepared a summary. Kaili hasn't had a chance to take a look this morning (she's been in meetings). Will bump it up the list for when she's back at her desk shortly after noon (or let me know if you need it now, and I can send you Director approved).

Thanks,
Erin

From: Katona, Keley (ENERGY)
Sent: January-23-17 11:06 AM
To: Thompson, Erin (ENERGY)
Subject: E&Y

Hi Erin,
Just checking in on status of the summary.
Thanks,