Market Accounts Recognition
Including Market Accounts in Financial Statements Recognition on the statement of financial position shows the asset and liability balances the IESO is holding on behalf of the IESO Administered Markets at a point in time (year end or each quarter). The IESO illustrates through statement recognition, their net zero position (Market net neutral). In reflecting the balances on the Statement, note disclosure was added which illustrates to a reader the material component breakdown of cash, interest, line of credit, amounts due to and from Market Participants, regulatory assets/liabilities and other net liabilities. For certain this adds a measure of transparency around the financial components the IESO is holding on behalf of the Market under our governance obligation as Administrator. The caveat in this recognition is helping the reader understand that the Market account balances cannot be used by IESO for our own revenue recognition work (IESO fee) which might be confusing if note disclosure is not clear and appropriate.
As a result of changing the accounting policy and applying rate regulated accounting the following have been identified as "regulatory assets/liabilities" in the financial statements under Market Accounts
RPP variance balance – introduced to IESO Jan 1, 2015. Previously variance balances were recognized on the OPA financial statements as they only had one set of statements in comparison to IESO that historically had two and kept Market and Corporate transaction recognition separate. (IESO did not publish Market Financial Statements.) TOU and regulated rate pricing was set twice a year by the OEB with the intent to equal Market commodity costs (HOEP plus Class B Global Adjustment) over the two rate setting periods such that the variance approached zero. Generally this did not happen for example Y/E 2016 variance was not zero and instead showed that the IESO had borrowed funds to fund the $122 M RPP variance. In mid-2017 this program was replaced by Fair Hydro. Y/E 2017 FH variance was $199M. Regulatory accounting does permit the IESO to transfer balances of regulatory accounts to another entity from time to time. However, given the timing of cash flows we know that there will be at least one month if not more of variance recognition recorded on the IESO's statement of financial position which might be useful information to users of our financial statements.
OESP variance - introduced to IESO Jan 1, 2016. Rate set by OEB annually. Uptake on program was slow and thus the IESO over-collected funds and a variance grew quickly - 2016 variance was $92.4M. In May 2017 OEB set rate to zero, variance account was $114.6M. Y/E 2017 OESP variance was $24.9 Upon depletion in March 2018, program began to be paid by tax dollars. There will be no balance on our next financial statements.
RRRP Variance - introduced March 2016. Previously, the IESO collected RRRP funds (rate set annually by OEB) and sent this entire amount to Hydro One for appropriate distribution. As a result of Hydro One IPO, the IESO took over distribution. As the rate is set on an expected forecast MWhs for following year there is always a variance. Y/E 2016 RRRP variance was an over-collection $4.7M. Y/E 2017 RRRP variance was under-collection $12.6M. Recognizing this account on our financial statements has highlighted the issue with the current rate set by the OEB. The IESO is hoping a new OEB rate expected for July 1, 2018 will reduce IESO borrowing needs and the corresponding interest payable by ratepayers.
Regulated Assets Recognition
Including Smart Metering Entity and Pension & Other Post Employee Benefits PSAS Transition Items Records the "right" to recover previous expenses and set this up as an asset because the OEB is expected to include recovery of these costs in establishing a future rate from ratepayers – costs from the past will be included in future rates. This indeed did happen from 2012 until 2017 in rate setting by the OEB so that the IESO could recover past SME costs that were reflected as an accumulated deficit. This is not unlike accounting practices at LDCs.

Smart Metering Entity Cost Prior to Rate Introduction – change in recognition permitted costs recognized as accumulated deficit to be recognized as a regulatory asset since the costs can reasonably be assumed recoverable from rate-payers through rates set by OEB in the future. This would occur until the regulatory asset was zero. Y/E 2016 unrecovered value was $21.6M. In 2017 where the balance was zero.
PSAS Transition Items – when the IESO transitioned from Canadian GAAP CICA Handbook to PSAS, added $80M instantly of net actuarial losses and past service costs were recognized and recorded directly into accumulated deficit. Because of this change in accounting we needed to add recover of these costs to the OEB rate setting process as the deficit needed to be recovered.
Where is the transparency in the 2018 financial statements due to the accounting policy change of 2016: - Balances as at the month end for IESO Administered Markets will be recognized as net neutral. **Note Disclosure:** - Component balances as at the month end for IESO Administered Markets balances will be note disclosed - FH variance balances not transferred to the Fair Hydro Trust and RRRP variance balance will be separately note disclosed as a regulatory asset/liability as appropriate - Unrecovered PSAB transition items will be recognized and note disclosed