GA Refinancing – Role of the Independent Electricity Operator (IESO)

- The IESO administers the $17 billion annual electricity market, settling transactions between generators and consumers of electricity.
  - Market accounts and liabilities are included on IESO financial statements to provide increased transparency around the value of transactions that flow through the market. The former Ontario Power Authority (merger with IESO in 2015) also reported a subset of market accounts.
  - The IESO is a corporation established pursuant to Part II of the Electricity Act, 1998, and prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS).
- Under Ontario's Fair Hydro Plan (OFHP), IESO continues to invoice eligible customers – but not collect – the full amount of Global Adjustment (GA) every month.
  - The deferred portion of the GA under OFHP is recorded in a variance account.
- The IESO's right to recover these costs from future ratepayers, constitutes a regulatory asset. The regulatory asset, is transferred to the OPG Trust.
  - Deloitte was also consulted and supported the recognition of the variance account as a regulatory asset.
- The IESO will reflect the impact of the GA refinancing using rate-regulated accounting:
  - Rate-regulated accounting better reflects the economic substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting;
  - Rate-regulated accounting is well understood in the electricity sector; and
  - The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT
- KPMG issued a clean audit opinion on the IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.

Notes:
The IESO received an unqualified opinion from KPMG on the audit of its 2016 financial statements.
The IESO and its audit partner, KPMG, agree that the recognition of regulatory assets and liabilities better reflects the economic, substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting.
Increased transparency of the $17 billion dollar electricity market
Better reflects the economic substance of certain IESO expenses, recovered through a regulated rate (i.e. SME expenses)
The recognition of regulatory assets brings the IESO in line with 6 other independent system operators in North America.
The IESO's adoption of regulatory accounting in no way affects the IESO's costs, or has any financial impact on electricity ratepayers.