## 3. NEW ACCOUNTING POLICIES

As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses which may not be directly recovered through the normal revenue requirement model. This change has been applied retroactively and has increased amounts previously unrecorded for regulatory assets and decreased amounts previously reported for accumulated deficit.

The IESO recognizes two regulated assets; 1) unrecovered smart metering expenses and 2) unrecovered PSAB transition items.

The smart metering expenses result from the IESO's role as the Smart Metering Entity. As such, the IESO funds its SME operating costs and capital investment in the meter data management/repository through fees from users of smart meters in Ontario. The OEB approves the Smart Metering Entity charge and the charge is intended to cover the costs of developing and operating the MDM/R.

The unrecovered PSAB transition items result from the IESO's adoption of Canadian public sector accounting standards effective January 1, 2011. The adoption of PSAB was accounted for by retroactive application with restatement of prior periods subject to the requirements in Section PS 2125, *First-time Adoption by Government Organizations*. The corresponding change to pension and other post-employment benefits resulted in previously unrecognized actuarial losses and past service costs of $80,617 thousand at the date of transition.

**Regulated assets consist of the following:**

| **As of December 31 (in thousands of Canadian dollars)** | **2016** | **2015** |
|---|---|---|
| | **$** | **$** |
| Unrecovered smart metering expenses | 21,623 | 40,849 |
| Unrecovered PSAB transition items | 43,441 | 47,353 |
| **Closing balance** | **65,064** | **88,202** |

In addition, as of January 1, 2016 the IESO changed its accounting policy regarding the recognition of market accounts assets and liabilities on the statement of financial position. The change was made to better reflect the assets and liabilities and amounts due to and from market participants held by the IESO on behalf of the IAM at year end. This change has been applied retroactively and has increased amounts previously unrecorded for market accounts assets and liabilities. There is no impact to the accumulated deficit or revenues and expenses as the IESO is not party to these transactions as per the market rules.

**Components of the market accounts are as follows:**

| **As of December 31 (in thousands of Canadian dollars)** | **2016** | **2015** |
|---|---|---|
| | **$** | **$** |
| Cash, restricted for market activities | 323,318 | 271,574 |
| Amounts due from market participants | 1,323,061 | 1,171,389 |
| Interest receivable | 186 | 157 |
| Revolving line of credit | (150,501) | (12,739) |
| HST receivable | 21,622 | 20,247 |
| Amounts due to market participants | (1,399,290) | (1,380,086) |
| Other liabilities | (118,396) | (70,542) |
| **Closing balance** | **-** | **-** |

## Comparative figures

A detailed reconciliation of the IESO's restated statement of financial position as at December 31, 2015 as follows:

| As of (in thousands of Canadian dollars) | December 31, 2015 (as reported) | December 31, 2015 adjustments | December 31, 2015 (as restated) |
|---|---|---|---|
| **FINANCIAL ASSETS** | **$** | **$** | **$** |
| Cash and cash equivalents | 14,715 | | 14,715 |
| Accounts receivable | 33,199 | | 33,199 |
| Long-term investments | 37,318 | | 37,318 |
| Regulated assets | - | 88,202 | 88,202 |
| Market accounts - assets | - | 1,443,121 | 1,443,121 |
| **TOTAL FINANCIAL ASSETS** | **85,232** | **1,531,323** | **1,616,555** |
| | | | |
| **LIABILITIES** | | | |
| Accounts payable and accrued liabilities | 48,868 | | 48,868 |
| Accrued interest on debt | 315 | | 315 |
| Rebates due to market participants | 9,595 | | 9,595 |
| Debt | 90,000 | | 90,000 |
| Accrued pension liability | 36,062 | | 36,062 |
| Accrued liability for employee future benefits other than pension | 84,501 | | 84,501 |
| Market accounts – liabilities | - | 1,443,121 | 1,443,121 |
| **TOTAL LIABILITIES** | **269,341** | **1,443,121** | **1,712,462** |
| | | | |
| **NET DEBT** | **(184,109)** | **88,202** | **(95,907)** |
| | | | |
| **NON-FINANCIAL ASSETS** | | | |
| Net tangible capital assets | 103,716 | | 103,716 |
| Prepaid expenses | 6,197 | | 6,197 |
| **TOTAL NON-FINANCIAL ASSETS** | **109,913** | | **109,913** |
| | | | |
| **ACCUMULATED SURPLUS/(DEFICIT)** | | | |
| Accumulated surplus/(deficit) from operations | (81,854) | 88,202 | 14,006 |
| Accumulated remeasurement gains | 7,658 | | 7,658 |
| **ACCUMULATED SURPLUS/(DEFICIT)** | **(74,196)** | **88,202** | **21,664** |

A detailed reconciliation of the IESO's restated statement of operations for the year ended December 31, 2015 is as follows:

| **For the year ended (in thousands of Canadian dollars)** | **December 31, 2015 (as reported)** | **December 31, 2015 adjustments** | **December 31, 2015 (as restated)** |
|---|---|---|---|
| **IESO CORE OPERATIONS** | **$** | **$** | **$** |
| System fees | 190,099 | (3,912) | 186,187 |
| Other revenue | 5,377 | | 5,377 |
| Interest and investment income | 1,430 | | 1,430 |
| **Core operations revenues** | **196,906** | **(3,912)** | **192,994** |
| Compensation and benefits | (104,994) | | (104.994) |
| Professional and consulting | (21,461) | | (21,461) |
| Operating and administration | (35,005) | | (35,005) |
| **Core operating expenses** | **(161,460)** | | **(161,460)** |
| Amortization | (17,933) | | (17,933) |
| Interest | (1,610) | | (1,610) |
| **Core expenses** | **(181,003)** | | **(181,003)** |
| **Core operations annual surplus before rebates** | **15,903** | **(3,912)** | **11,991** |
| Rebates due to market participants | (9,595) | | (9,595) |
| **Core operations annual surplus** | **6,308** | **(3,912)** | **2,396** |
| | | | |
| **MARKET SANCTIONS AND PAYMENT ADJUSTMENTS** | | | |
| **Market sanctions and payment adjustment** | **6,021** | | **6,021** |
| Compensation and benefits | (3,094) | | (3,094) |
| Professional and consulting | (1,351) | | (1,351) |
| Operating and administrative | (114) | | (114) |
| **Customer education and market enforcement expenses** | **(4,559)** | | **(4,559)** |
| **Market sanctions and payment adjustments annual surplus** | **1,462** | | **1,462** |
| | | | |
| **SMART METERING ENTITY** | | | |
| **Smart metering charge** | **46,215** | **(20,030)** | **26,185** |
| Compensation and benefits | (2,607) | | (2,607) |
| Professional and consulting | (14,902) | | (14,902) |
| Operating and administration | (4,200) | | (4,200) |
| **Smart metering operating expenses** | **(21,709)** | | **(21,709)** |
| Amortization | (3,524) | | (3,524) |
| Interest | (952) | | (952) |
| **Smart metering expenses** | **(26,185)** | | **(26,185)** |
| **Smart metering entity annual surplus** | **20,030** | **(20,030)** | **-** |
| | | | |
| **ANNUAL SURPLUS** | **27,800** | **(23,942)** | **3,858** |
| | | | |
| ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD | (109,654) | 112,144 | 2,490 |
| | | | |
| **ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD** | **(81,854)** | **88,202** | **6,348** |