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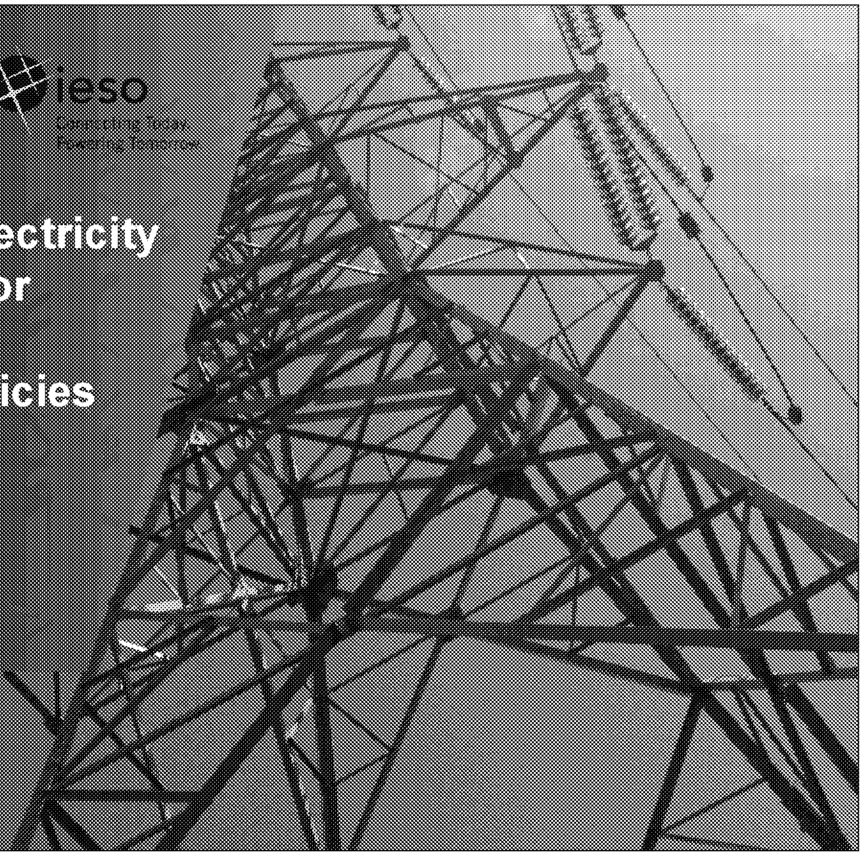
Accounting Policies

April 25, 2017



Summary

- In 2016 changed two key accounting policies
  - Recognition of regulatory assets
    - Resulted in the recognition of assets as a result of costs previously incurred by IESO for which the OEB has allowed for deferral and future recovery
      - Smart Metering Entity Charge
      - Pension and Post Employment Benefits PSAB Transition Adjustment
  - Recognition of market accounts assets and liabilities
    - Resulted in the presentation of assets and liabilities of the Market Accounts to be reflected on the IESO financial statements

Market Accounts Assets and Liabilities

- Historically, the assets and liabilities of the market accounts
  - Examples of these costs include (not a complete list):
    - Cash
    - Accounts payable and receivable from market participants (i.e., generators, transmitters, distributors, marketers)
    - Line of credit
    - Amounts collected from market participants for regulatory future uses (RRRP and OESP)
  - These were not included as the IESO is not a principal to the transactions between market participants, but serves as a financial facilitator
  - The policy switch was made to provide greater transparency and information to users

Regulatory Assets

- Historically IESO has not recorded regulatory assets or liabilities under PSAB or the Pre-changeover standards prior to 2011 (Part V of the CPA Handbook)
- In 2016, IESO determined that recognizing regulatory assets (and liabilities if applicable) would result in a more appropriate accounting policy and better measures the activities and financial resources and exposures of the entity
- PSAB does not have standards that specifically address regulatory accounting
- As such, IESO considered whether it could adopt the recommendations of US GAAP ASC 980 Regulated Operations
- IESO analyzed this in reference to the GAAP Hierarchy in accordance with PS1150.05

Regulatory Assets

- Specifically, PS1150.19 cites Parts I and II of the CPA Handbook (i.e., IFRS and ASPE), US GAAP, US GASB, and IPSASB as important sources
- IESO noted that ASPE, US GAAP, and US GASB all have standards that recognize regulatory accounting
- IESO analyzed, as required under PSAB, whether the using the alternative source of GAAP, through the hierarchy, would yield a result that is consistent with PSAB standards.
- Specifically it looked at the definitions of assets and liabilities and the characteristics of those between PSAB and FASB, and found these to be consistent, as it relates to regulatory accounting
- IESO also considered the standards being used by other rate regulated entities within Ontario, the vast majority of whom follow rate regulated accounting either through IFRS 14, US GAAP, or ASPE

Regulatory Assets

- IESO also considered IFRS 14
- This was not relevant at this time, as IFRS merely permits an entity adopting IFRS for the first time to continue with its previous rate regulated accounting policies (if conditions are met) to continue with those policies, until such time as a standard is developed.
- IESO does not use the IFRS accounting framework