OPEBs letter

Key points

- No shareholder
- No income taxes paid
- No PILS paid
- Not for profit
- PSAB (Public Sector Accounting Board)
- Annual filing
  - No rate rebasing
  - No rate base
  - Not rate regulated
- Expert actuary calculation
- Audited financials

If this applied to the IESO there would Incremental extra effort & associated costs for

- Two sets of books
- Information requirements

Regulatory Treatment of Pensions and Other Post-Employment Benefit Costs (EB-2015-0040)

Draft letter

In its August 10, 2016 letter as part of EB-2015-0040, the Board identified that it is seeking submissions from interested parties on two objectives:

1. Principles that the OEB should adopt for purposes of assessing pension and OPEB costs in rate applications, including any principles the OEB should adopt in considering the appropriate rate mechanisms for cost recovery, and
2. Options for rate mechanisms for cost recovery.

While the IESO has not been an active participant in the consultation to date, it is pleased to be able to provide a submission on these objectives. Due its unique nature and structure as set out in legislation, the IESO is limiting its comments on the two identified objective relative to itself.

Summary
Unlike most entities that the Board regulates, the IESO is established by legislation as a non-profit entity without share capital. For these reasons and those described below, the IESO does not support its pension and OPEB costs being assessed, reported on, or reviewed in the same manner as for profit entities that are rate regulated as this would impose additional burden and costs on the IESO, and ultimately Ontario electricity ratepayers, for no perceivable gain.

Commented [AP1]: We need to explain/build out burden and costs in explanation below

Principles
Given that the IESO's financials are reviewed and audited by multiple accredited parties and the IESO's expenses and revenue requirement are reviewed and approved by the Minster prior to the IESO filing an application for its expenditures, revenue requirement and fees with the Board, the IESO does not support any principles adopted for rate regulated for profit corporations being adopted in relation to

Commented [AP2]: Susan, is this correct?

assessing the IESO's pension and OPEB costs or any principles being adopted in relation to cost recovery or alternative options for cost recovery by the IESO.

Background
Legislation
As set out in the Electricity Act the IESO is a [Sec 6.(2)] Corporation without share capital [Section 5.(1)] and is a non-profit entity [Section 6.(2)]. The financial structure of the IESO mirrors that of the Board and as far as the IESO is aware, it is the only entity licenced by the Board structured in this manner and the only entity that is required by legislation to be a not for profit entity.

Public sector entity & Canadian public sector accounting standards
As it is a public sector entity, the IESO's financial statements are prepared in accordance with Canadian public sector accounting standards. While the Board's financial statements are prepared in accordance with Canadian public sector accounting standards, the IESO understands that those entities with share capital that the Board rate regulates do not prepare their financial statements according to this standard. To comply with new and additional reporting requirements would require the IESO to provide reporting to the Board in a similar manner to that used by entities that are for profit, with share capital and that do not prepare their financial statements in accordance with Canadian public sector accounting standards. There would be a work burden and additional costs associated with converting the IESO's current financial reporting to this format which would not provide additional value due to the regime the IESO is required to report its finances under by Legislation.

Commented [AP3]: Susan, can you provide a description of the work burden associated with this and whether the product would be actually be useful or not and why

IESO's annual filing with the Ontario Energy Board
The IESO is required by legislation to file an application with the Board for approval of its proposed expenditure and revenue requirements for the fiscal year and the fees it proposes to charge after the Minister has approved the IESO's Business Plan. The IESO recovers the greater its costs, including its pension and OPEB costs through, its fee. Due to the legislative requirement to submit its business plan to the Minister for approval prior to filing its fee application with the Board it would not be practical for the IESO to be subject to rate mechanisms designed for entities with shareholders and that are for profit.

Conclusion
Given the reasons provided above, the IESO does not support having additional reporting or regulatory requirement imposed on it for its pension and OPEB costs, including having these costs assessed, reported on or reviewed in the same manner as entities that are rate regulated. To require the IESO to prepare its financial statements in the same manner as entities that are rate regulated by the Board would not be in line with the IESO's legislated structure, which is different than these entities, and the IESO is required to prepare its financial statements in accordance with a different standard than these entities.

Respectfully yours,