IESO PSAB Accounting – Speaking Notes

- Prior to January 1, 2011, the IESO followed the Canadian Generally Accepted Accounting Principles (CGAAP) for all of its accounting included the accounting for pension and other post-employment benefits.
- On January 1, 2011, the Canadian Generally Accepted Accounting Principles (CGAAP) ceased to exist and the IESO had to move to a new accounting standard.
- The Province of Ontario classifies the IESO as an "other government organization" (OGO) within its general accounts and in all classifications. OGOs had a choice of adopting either PSAB or IFRS. Only if an OGO considered itself a publicly accountable enterprise could it voluntarily adoption IFRS. Otherwise, an OGO had to adopt PSAB.
- The IESO believed the reporting requirements of PSAB were more suitable to the IESO and the users of its financial statements than IFRS.
- The Ontario Power Authority adopted PSAB, as did the Ontario Energy Board
- The IESO's external financial statement auditors were also supportive of the IESO's adoption of PSAB in 2011.
- The analysis of PSAB identified several areas of impact to the IESO. These areas of impact include: financial statement presentation; retirement and post-employment benefits; financial instruments; and presentation of capital assets and associated note disclosures.
- The largest area of differences between CGAAP and PSAB, for the IESO, was within the calculation of pension and post-employment benefits expenses.
- The IESO would no longer be able to use the corridor method to amortize actuarial gains/losses for pension expense. The corridor method was adopted by the IESO to help smooth actuarial gains/losses and thus the impact on the IESO usage fee.
- Changes also resulted to the discount rate, the discount rate under CGAAP was determined based on high quality corporate bond yields whereas under PSAB the discount rate was based on management's expected long-term experience and short-term forecasts for a return on asset assumption. This results in a more stable discount rate assumption.
- Beginning in 2011 under PSAB, past service costs from plan amendments would be expensed immediately.
- Upon first-time adoption, PSAB required retrospective application with restatement of the prior periods with four possible exemptions. Only one exemption applied to the IESO and it related to the retirement and post-employment benefits. Namely, at the date of transition, the IESO could elect to transfer all cumulative actuarial losses directly to an accumulated deficit account ($140

million as of the end of 2009 for pension and other post-employment benefits) instead of recalculating the losses retrospectively from 1999 without a corridor.

- Considering the cost to undertake the recalculation and the fact that the IESO has historically had rates approved based on accounting expenses, the IESO elected to use this exception.

- The changes in accounting standards were expected to have implications on the 2011 and future rate cases and these were discussed at the IESO's 2011 rate case with the Ontario Energy Board.

- It was noted that the Ontario Energy Board (OEB) report issued by the Board in July 2009, discussed the types of changes mentioned above for the adoption of IFRS and the Board provided explicit principles to rate regulated entities. More specifically the stated principles for setting regulatory accounting, reporting and filing include fairness, minimizing intergenerational inequity and minimizing rate volatility.

- The Board confirmed its expected continuation with the current approach of establishing and clearing of deferral and variance accounts, which the IESO used to account for the transfer of cumulative actuarial losses and past service costs into a deficit account.

- Actuarial gains/losses occur when the actual experience differs from the assumptions that were used in the calculations that derived the pension expense and the expense for other post-employment benefits. This amount fluctuates each year, sometimes as a loss and sometimes as a gain.

- At the transition date of January 1, 2010 the unrecognized actuarial loss for pension benefits was $72 million and the unrecognized actuarial loss for OPEB was $5 million. These amounts were recognized in accumulated deficit.

- Under CGAAP, the amount of actuarial gain/loss was amortized over the estimated average remaining service life of employees (EARSL) and the amortized portion was included in the expense.

- With the adoption of PSAB, this principle was held constant, with the amount transferred into the accumulated deficit account also amortized over EARSL and included in the expense.

- Past service costs relating to pension and other post-employment benefits occur when plan amendments are made and the expenses are based on the total service of the employee instead of a go-forward benefit.

- At the transition date of January 1, 2010, the IESO had $2 million and $172 thousand in unrecognized past service costs relating to pension and OPEB, respectively. These amounts were recognized in accumulated deficit.

- Under CGAAP, the amount of past service costs were amortized on a straight-line basis over the estimated average remaining service life of employees (EARSL) and the amortized portion was included in the expense.

- With the adoption of PSAB, this principle was held constant, with the amount transferred into the accumulated deficit account also amortized over the remaining EARSL and included in the expense.

- This total unrecognized actuarial loss and past service costs restated to accumulated deficit as a result of the transition to PSAB was $80 million.

- The approach of amortizing the actuarial loss and past service costs constant when calculating the annual pension expense and other-post employment benefit expense was consistent with the stated principles expressed by the Ontario Energy Board.

- These amortized costs are recorded and publicly disclosed in the annual report of the IESO.

- To the end of 2015, $33 million of the $80 million has been amortized into the expense.