3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS

Effective January 1, 2011, the IESO adopted Canadian public sector accounting standards (PSAB) with a transition date of January 1, 2010.

The adoption of PSAB has been accounted for by retroactive application with restatement of prior periods subject to the requirements in Section PS 2125, *First-time Adoption by Government Organizations*, unless otherwise stated.

The following outlines the accounting policies in areas which changed as a result of the IESO's adoption of PSAB:

Change to financial statement presentation

The IESO's adoption of PSAB includes early adoption of Section PS 1201, *Financial Statement Presentation*. The following is a summary of the significant differences for the IESO between, the December 31, 2010, as previously reported and restated financial statements:

The statement of financial position, as at December 31, 2010, has been restated, segregating financial and non-financial assets as well as the net debt (liabilities less financial assets) of the IESO; and accumulated deficit at the statement of financial position date.

The statement of operations, loss and accumulated deficit for the year ended December 31, 2010 has been replaced by the statement of operations and accumulated deficit and the statement of remeasurement gains and losses. The statements of operations and accumulated deficit report both revenue and expenses by the functions of the IESO.

A statement of remeasurement gains and losses has been presented. It represents the unrealized gains and losses associated with foreign exchange and changes in value for financial instruments recorded at fair value. It also includes realized gains and losses reclassified to the statements of operations when the asset or liability is settled.

The statements of change in net debt have been presented. It represents the acquisition, amortization and disposition of tangible capital assets as well as other significant items that explain the difference between the operating surplus or deficit for the accounting period and the change in net debt in the period.

The statement of cash flows as at December 31, 2010 have been restated, segregating capital and investing transactions.

Change to financial instruments

The IESO elected the early adoption of Section PS 3450, *Financial Instruments*, commencing in the 2011 fiscal year.

Previously the IESO classified long-term investments as "held for trading" and these were recorded at fair value with gains and losses recorded in the statement of operations at the financial statement date.

Under PSAB, long-term investments continue to be recorded at fair value. The unrealized change in fair value is recognized in the statement of remeasurement gains and losses. Once the asset or liability is settled, the cumulative remeasurement gain or loss is recorded on the statement of operations.

In transitioning to this section, the IESO is not required to restate prior period balances.

Change to foreign currency exchange

The IESO elected the early adoption of Sections PS 2601, *Foreign Currency Translation*, commencing in the 2011 fiscal year.

Previously foreign currency exchange gains and losses measured in relation to the exchange rate at the date of the item's initial recognition is recorded in the statement of operations.

Under PSAB, an unrealized foreign exchange gain or loss that arises prior to settlement is recognized in the statement of remeasurement gains and losses. In the period of settlement, the cumulative remeasurement gain or loss would be recorded on the statement of operations.

In transitioning to this section, the IESO is not required to restate prior period balances.

Change to pension and other post-employment benefits

Previously the discount rate used to value these liabilities was based on the market value of high quality corporate bond yields as at the measurement date. Under PSAB, the discount rate used to value liabilities by the IESO is based on the expected rate of return on plan assets as at the measurement date.

Previously the cumulative unamortized net actuarial gain or loss in excess of 10% of the greater of the projected benefit obligation and the market-related value of plan assets was amortized over the expected average remaining service life of the employees covered by the plan. Under PSAB, the total actuarial gains and losses are amortized over the expected average remaining service life of the employees covered by the plan.

The expected return on plan assets is based on management's long-term best estimate using a market-related value of plan assets as at the measurement date. Previously the market-related value of plan assets was determined using market-related values for equities (whereby fund assets are calculated using the average value of assets over five years) and market values for fixed income securities. Under PSAB, the market-related value of plan assets is determined using market-related values for all plan assets whereby all fund assets are calculated using the average value of assets over five years.

On transition, the IESO elected to recognize all accumulated unamortized actuarial gains and losses as of the transition date in accumulated deficit. At January 1, 2010 the unrecognized actuarial loss for pension benefits was $72,847 thousand and the unrecognized actuarial loss for OPEB was $5,275 thousand.

Previously past service costs resulting from plan amendments related to prior period employee services were amortized over estimated average remaining service life of employees. Section PS 3250, *Retirement Benefits*, states that past service costs would be accounted for as an expense in the period of the plan amendment. At the transition date, the IESO had $2,323 thousand and $172 thousand in unrecognized past service costs relating to pension and OPEB, respectively. These amounts were recognized in accumulated deficit.

This total unrecognized actuarial loss and past service costs restated to accumulated deficit as a result of the transition to PSAB was $80,617 thousand.

Change in compensated absences

In the transition to PSAB, Section PS 3255, *Post Employment Benefits, Compensated Absences and Termination Benefits*, the IESO estimated a liability for accumulating sick pay benefits as of the transition date. Prior to the adoption of this section, the IESO did not have a liability recorded for accumulating sick pay benefits.

At January 1, 2010 the accrual for accumulated sick pay benefits resulted in a liability of $350 thousand.

Change to intangible assets

Previously the IESO reported computer software as intangible assets. In the transition to PSAB, computer software falls under the scope of section PS 3150, *Tangible Capital Assets*, and is reported in net tangible assets in the statements of financial position.

At January 1, 2010, $6,685 thousand of intangible assets were reclassified to net tangible capital assets.

Comparative figures

The following tables present the reconciliation of account balances and transactions from the CICA reporting framework to the PSAB standard.

A detailed reconciliation of the IESO's restated statement of financial position as at the transition date is as follows:

As at (in thousands of Canadian dollars)	Note	January 1, 2010 (as reported)	January 1, 2010 adjustments	January 1, 2010 (as restated)
		$	$	$
FINANCIAL ASSETS				
Cash and cash equivalents		8,990	–	8,990
Accounts receivable		13,500	–	13,500
Long-term investments		18,204	–	18,204
TOTAL FINANCIAL ASSETS		**40,694**	**–**	**40,694**
LIABILITIES				
Accounts payable and accrued liabilities	A	20,073	350	20,423
Accrued interest on debt		66	–	66
Rebates due to market participants		4,324	–	4,324
Long-term debt		78,200	–	78,200
Accrued pension liability	B	–	71,821	71,821
Accrued liability for employee future benefits other than pension	C	51,021	5,447	56,468
TOTAL LIABILITIES		**153,684**	**77,618**	**231,302**
NET DEBT		**(112,990)**	**(77,618)**	**(190,608)**
NON-FINANCIAL ASSETS				
Net tangible capital assets		79,738	6,685	86,423
Intangible assets		6,685	(6,685)	–
Prepaid pension costs	B	3,349	(3,349)	–
Prepaid expenses		3,693	–	3,693
TOTAL NON-FINANCIAL ASSETS		**93,465**	**(3,349)**	**90,116**
ACCUMULATED DEFICIT				
Accumulated deficit from operations		(19,525)	(80,967)	(100,492)
ACCUMULATED DEFICIT		**(19,525)**	**(80,967)**	**(100,492)**

A detailed reconciliation of the IESO's restated statement of financial position as at December 31, 2010 is as follows:

As at (in thousands of Canadian dollars)	Note	December 31, 2010 (as reported)	December 31, 2010 adjustments	December 31, 2010 (as restated)
		$	$	$
FINANCIAL ASSETS				
Cash and cash equivalents		8,609	–	8,609
Accounts receivable		15,755	–	15,755
Long-term investments		21,816	–	21,816
TOTAL FINANCIAL ASSETS		**46,180**	**–**	**46,180**
LIABILITIES				
Accounts payable and accrued liabilities	A	22,090	350	22,440
Accrued interest on debt		161	–	161
Rebates due to market participants		10,193	–	10,193
Short-term debt		2,000	–	2,000
Long-term debt		78,200	–	78,200
Accrued pension liability	B	–	67,866	67,866
Accrued liability for employee future benefits other than pension	C	56,399	3,823	60,222
TOTAL LIABILITIES		**169,043**	**72,039**	**241,082**
NET DEBT		**(122,863)**	**(72,039)**	**(194,902)**
NON-FINANCIAL ASSETS				
Net tangible capital assets		81,698	6,844	88,542
Intangible assets		6,844	(6,844)	–
Prepaid pension costs	B	3,073	(3,073)	–
Prepaid expenses		3,769	–	3,769
TOTAL NON-FINANCIAL ASSETS		**95,384**	**(3,073)**	**92,311**
ACCUMULATED DEFICIT				
Accumulated deficit from operations		(27,479)	(75,112)	(102,591)
ACCUMULATED DEFICIT		**(27,479)**	**(75,112)**	**(102,591)**

A detailed reconciliation of accumulated deficit as at December 31, 2010 and January 1, 2010 is as follows:

As at (in thousands of Canadian dollars)	December 31, 2010	January 1, 2010
Accumulated deficit from operations (as reported)	(27,479)	(19,525)
PSAB transition item – unrecognized actuarial losses	(78,122)	(78,122)
PSAB transition item – past service costs	(2,495)	(2,495)
PSAB transition item – accumulated sick pay benefits	(350)	(350)
Change in pension expense	4,231	–
Change in OPEB expense	1,624	–
Accumulated deficit from operations (as restated)	**(102,591)**	**(100,492)**

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A detailed reconciliation of the IESO's restated statement of operations for the year ended December 31, 2010 is as follows:

For the year ended (in thousands of Canadian dollars)	Note	December 31, 2010 (as reported)	December 31, 2010 adjustments	December 31, 2010 (as restated)
		$	$	$
WHOLESALE MARKET OPERATIONS				
System fees		116,890	–	116,890
Other revenue		2,958	–	2,958
Interest and investment income		2,378	–	2,378
Wholesale market operations revenues		**122,226**	**–**	**122,226**
Wholesale market operation expenses	D	114,126	(5,855)	108,271
Wholesale market operations annual surplus		**8,100**	**5,855**	**13,955**
MARKET PENALTIES AND FINES				
Revenue from penalties and fines		5	–	5
Customer education expenses		243	–	243
Market penalties and fines annual deficit		**(238)**	**–**	**(238)**
SMART METERING PROGRAM				
Smart metering program expenses		15,816	–	15,816
Smart metering program annual deficit		**(15,816)**	**–**	**(15,816)**
ANNUAL DEFICIT		**(7,954)**	**5,855**	**(2,099)**
ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD		**(19,525)**	**(80,967)**	**(100,492)**
ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD		**(27,479)**	**(75,112)**	**(102,591)**

Explanatory notes to the reconciliation

A) Accrual for Accumulated Sick Pay Benefits

(in thousands of Canadian dollars)	December 31, 2010	January 1, 2010
Accounts payable and accrued liabilities (as reported)	22,090	20,073
PSAB transition item for sick pay benefits	350	350
Accounts payable and accrued liabilities (as restated)	**22,440**	**20,423**

B) Prepaid Pension Costs and Accrued Pension Liability

(in thousands of Canadian dollars)	December 31, 2010	January 1, 2010
Prepaid pension costs (as reported)	(3,073)	(3,349)
PSAB transition item – unrecognized actuarial loss	72,847	72,847
PSAB transition item – past service cost	2,323	2,323
Change in pension expense	(4,231)	–
Accrued pension liability (as restated)	**67,866**	**71,821**

C) Accrued Liability for Employee Future Benefits Other than Pension

(in thousands of Canadian dollars)	December 31, 2010	January 1, 2010
Accrued liability for employee future benefits other than pension (as reported)	56,399	51,021
PSAB transition item – unrecognized actuarial loss	5,275	5,275
PSAB transition item – past service cost	172	172
Change in OPEB expense	(1,624)	–
Accrued liability for employee future benefits other than pension (as restated)	**60,222**	**56,468**

D) Wholesale Market Operation Expenses

(in thousands of Canadian dollars)	December 31, 2010
Wholesale market operation expenses (as reported)	114,369
Change in pension expense	(4,231)
Change in OPEB expense	(1,624)
Wholesale market operation expenses (as restated)	**108,514**

4. LONG-TERM INVESTMENTS

Long-term investments in a balanced portfolio of pooled funds are valued by the pooled funds manager based on published price quotations and amount to $24,341 thousand (2010 – $21,816 thousand). As at December 31, the market value allocation of these long-term investments was 58.8% equity securities and 41.2% debt securities (2010 – 60.8% and 39.2% respectively).

Balanced Portfolio of Pooled Funds

As at December 31 (in thousands of Canadian dollars)	2011	2010
	$	$
Opening balance	21,816	17,931
Purchase of investments	2,947	2,825
Change in fair value	(422)	1,060
Closing balance	**24,341**	**21,816**