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SENT BY BOARD WEB PORTAL

March xx, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor 2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Independent Electricity System Operator Licence (EI-2013-0066) compliance report: Change in Accounting Procedures

As required by its licence section 14.1, the IESO hereby notifies the Board of a material change to its accounting policy.

Recognition of assets and liabilities subject to rate regulation:

As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The effect of this change will be reflected on the IESO's financial statements for the year ended December 31, 2016 and applied retroactively. The result of the change has increased the amounts previously unrecorded for regulatory assets and decrease the amounts previously reported for accumulated deficit.

As the Board is aware, the IESO prepares its financial statements according to Canadian public sector accounting standards (PSAB). However, PSAB does not include guidance on treatment of regulatory assets and so the IESO applies US Generally Accepted Accounting Principles (US GAAP) to address the affected financial statement items. The affected items, previously treated as accumulated deficit, are (1) unrecovered smart metering expenses and (2) unrecovered PSAB transition items.

Recognition of market accounts assets and liabilities

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 IESO Administered Market 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.

A detailed reconciliation of the IESO's restated statement of financial position and restated statement of operations for the year ended December 31, 2015 will be included in the IESO's financial statements for the year ended December 31, 2016. The IESO will provide the Board with its 2016 Annual Report according to our licence.

Yours truly,

Tam Wagner
Senior Manager, Regulatory Affairs, IESO

cc: