Management Conclusions:

Issue #1 – Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

IESO management has concluded that the IESO can recognize a regulatory asset related to the variance account created by the proposed Act.

The variance account created by the proposed Act is subject to rate regulation by the OEB and the variance account will be established with the right to collect funds against the variance amount in the future. In these circumstances, the IESO is able to establish a regulated asset. The IESO financial statements are prepared in accordance with Canadian public sector accounting standards. Although PSAB does not provide specific guidance on rate regulated accounting, it does allow for guidance to be followed from other accounting frameworks. IESO has applied guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, *Regulated Operations* in its accounting policies.

Issue #2 – Is the trust to be established by Ontario Power Generation (the "OPG Trust') controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and therefore subject to consolidation by IESO?

IESO management has concluded that the OPG Trust to be established is not controlled by the IESO and therefore is not subject to consolidation by the IESO.

Based on the 11 indicators of control as defined in Section PS 1300 *Government Reporting Entity*, there is no evidence of control by the IESO for the OPG Trust either collectively or individually. The IESO will not have the power to govern the Trust, nor have ongoing access to Trust's assets. The IESO will also not have any voting shares or future rights to the Trust nor the power to dissolve the Trust. Without control, the Trust is not subject to consolidation within the IESO financial statements.

Issue #3 – What is the accounting treatment for the derecognition of the regulatory asset upon transfer of the variance account to the OPG Trust?

IESO management has concluded that the regulatory asset will be derecognized upon transfer of the variance account to the OPG Trust.

The transfer of the variance account essentially transfers the control and the right to collect funds in the future against the variance amount to the OPG Trust. Through asset definition this will eliminate the IESO asset by the amount of the transfer as there is no longer control of an economic resource or access to future economic benefits for that amount. The funds collected from the transfer will in turn reduce the associated debt held by the IESO, maintaining the IESO's $ nil balance in the market accounts.