Part 3:
Accounting for Independent Electricity System Operator Market Accounts

Independent Electricity System Operator (IESO)

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAS.
- IESO is controlled and consolidated into the consolidated financial statements of the province on a line-by-line basis
  - IESO is classified as an Other Government Organization under PSAS
    - It is controlled by the Province
    - It is a separate entity with the power to contract in its own name and that can sue and be sued.
    - It is neither a government business enterprise nor a government not-for-profit organization.
- KPMG LLP audited IESO's financial statements and issued an unqualified opinion on the December 31, 2016 and December 31, 2017 financial statements.

IESO – Market Accounts

- As part of its role, IESO administers a $17 billion annual electricity market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers).
  - These are referred to as market accounts.
- IESO is a party to each of these agreements with market participants [NTD: Unclear what agreements does this refer to?]
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- For example: [NTD: Is this true? Our financial statements aren't broken out by Market Participant]
  - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does.
  - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does.
- **This change had no impact to the province's annual deficit, net debt or accumulated deficit.**

Market Accounts – Recognition and Presentation under PSAS

- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAS
  - The amounts due to and from the market participants result from contracts that meet the definition of a financial instrument under PS 3450
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize the balances of market accounts in the financial statements.
- The accounting also aligns with: [NTD: I have heard us reference the stock exchange analogy, but not the gov't of Canada]
  - Accounting treatment of the tax collected by the Government of Canada ("GoC") on behalf of the provinces and territories. The accounting policy for the Tax Revenue of the Government of Canada for the financial year ended March 31, 2017 states, in part:
    - *"Tax collected on behalf of the provincial/territorial governments is not included in tax revenues. It is recorded as payable to the provincial/territorial governments included within Other Accounts Payable and Accrued Liabilities and distributed by the Department of Finance in accordance with associated agreements."*
  - Accounting followed for stock exchanges that settle transactions in a financial market – e.g. TMX Group