IESO (draft #1)
Government Business Enterprise ("GBE") analysis

References: IESO's 2015 Financial statements, PS 1300, Electricity Act, 1998 ("EA")

A GBE is defined in the CPA Accounting Handbook, Public Sector Accounting, Introduction to public sector accounting standards paragraph 6.
A GBE is a government organization that has all of the following characteristics:

Characteristics	Guidance and comments	Weighting	Recommendations
(a) It is a separate entity with the power to contract in its own name and that can sue and be sued.	• IESO is a not-for-profit organization, non-taxable, corporation established pursuant to Part II of the *Electricity Act*, 1998. (note 1 to FS) • The IESO is not an agent of the Crown for any purpose, despite the Crown Agency Act. 2014. (EA, 8) • The IESO has the capacity, rights, powers and privileges of a natural person for the purpose of carrying out its objects (EA, 6(3)). • The IESO is subject to various claims, legal actions and investigations that arise in the normal course of business. (note 15 to FS)	• Characteristic is met.	
(b) It has been delegated the financial and operational authority to carry on a business?	• A business is an integrated set of activities and assets that is capable of being conducted and managed <u>for the purpose of providing a return in the form of dividends, lower costs or other economic benefits</u> directly to investors or other owners, members <u>or participants</u>. (IFRS 3, Appendix A))	• Characteristic is met. • IESO's board of directors has been delegated the financial and operational authority to carry on the business. IESO is managing its business to provide other economic benefits to market participants. • The key benefits include: – to direct the operation and maintain the reliability of the IESO-controlled grid; and	• Changing the type of organization from not-for-profit organization to be a for-profit organization would strengthen the argument that IESO is carrying business.

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	• For example, a GBE may be required to earn a profit while operating within a specified pricing structure. (PS 6420) • The IESO is not an agent of the Crown for any purpose, despite the Crown Agency Act. 2014. (EA, 8) • The business and affairs of the IESO shall be carried on without the purpose of gain and any profits shall be used by the IESO for the purpose of carrying out its objects. (EA, 6(2)) • The IESO's board of directors shall manage and supervise the management of the IESO's business and affairs. (EA, 10(1)) • The board of directors of the IESO may make by-laws regulating the business and affairs of the IESO. (EA, 22(1)) • At least 120 days before the beginning of each fiscal year, the IESO shall submit its proposed business plan for the fiscal year to the Minister for approval. (EA, 24(1)) • The IESO may establish and charge fees to recover, (a) the costs of anything done in connection with the IESO-controlled grid or the IESO-administered markets; (b) the costs of doing anything the IESO is required or permitted to do under this or any other Act; and	– to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the short term, medium term and long term. • The OEB has allowed the IESO to retain $10 million of profits in surplus, which is shown as a regulatory deferral account balance in the accumulated surplus (deficit) of the statement of Financial Position.	

	(c) any other type of expenditure the recovery of which is permitted by the regulations (EA, 25(1)) • The Board may approve the proposed expenditure and revenue requirements and the proposed fees or may refer them back to the IESO for further consideration with the Board's recommendations. (EA, 25(4))		
(c) It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity.	• Selling goods and services involves a direct exchange relationship between the revenues and the goods and services provided. Selling prices are related to the quantity and quality of goods or services sold, and not just to the recovery of administrative costs. Imposed fees and penalties, such as licenses and fines, do not represent sales of goods and services. Insurance premiums charged by a government organization are a sale of a service and not an imposed fee. (PS 1300.29). IESO is permitted to recover the costs of anything done in connection with the IESO-controlled grid or the IESO-administered markets (see above EA, 25(1)). • The objects of IESO include: (a) to exercise the powers and perform the duties assigned to it under this Act, the regulations, directions, the market rules and its licence; (b) to enter into agreements with transmitters to give it authority to	• Characteristic is met. • IESO does not sell goods but provide various services and ancillary services to market participants for the ultimate benefits of the customers of Ontario. • Principal activity is providing services outside of the government reporting entity. • IESO has two OEB approved fees: one for exports and one for withdrawals for use in Ontario and embedded generation, which is generation within an LDCs service territory. All parties charged are market participants registered with the IESO and are charged based on meter readings. • The fees charged to exporters are approximately 20% higher than the other market participants. • The fees charged for the services are determined based on meter readings and a rate per KWh, similar to LDCs and transmission companies in Ontario.	

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	direct the operation of their transmission systems; (c) to direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of this Act; (d) to participate in the development by any standards authority of criteria and standards relating to the reliability of the integrated power system; (e) to establish and enforce criteria and standards relating to the reliability of the integrated power system; (f) to work with the responsible authorities outside of Ontario to co-ordinate the IESO's activities with the activities of those authorities; (g) to operate the IESO-administered markets to promote the purposes of this Act; (h) to engage in activities related to contracting for the procurement of electricity supply, electricity capacity, electricity storage, transmission systems or any part of such systems and conservation resources; (i) to engage in activities related to settlements, payments under a contract entered into under the authority of this Act and payments provided for under this Act or the *Ontario Energy Board Act, 1998*; (j) to engage in activities in support of the goal of ensuring adequate, reliable		

	and secure electricity supply and resources in Ontario; (k) to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the short term, medium term and long term; (l) to conduct independent planning for electricity generation, demand management, conservation and transmission; (m) to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources; (n) to engage in activities in support of system-wide goals for the amount of electricity to be produced from different energy sources; (o) to engage in activities that facilitate load management; (p) to engage in activities that promote electricity conservation and the efficient use of electricity; (q) to assist the Board by facilitating stability in rates for certain types of consumers; (r) to collect and make public information relating to the short term, medium term and long term electricity needs of Ontario and the adequacy		

	and reliability of the integrated power system to meet those needs; and (s) to engage in such other objects as may be prescribed by the regulations. (EA, 6) **Part I of the EA, Interpretation:** • "Ancillary services" means services necessary to maintain the reliability of the IESO-controlled grid, including frequency control, voltage control, reactive power and operating reserve services. • "Fees" means, with respect to the IESO, amounts charged by the IESO to recover its costs of operations. • "IESO-controlled grid" means the transmission systems with respect to which, pursuant to agreements, the IESO has authority to direct operations. • "Integrated power system" means the IESO-controlled grid and the structures, equipment and other things that connect the IESO-controlled grid with transmission systems and distribution systems in Ontario and transmission systems outside Ontario. • **Regulations** 161.4 (1) The Lieutenant Governor in Council may make regulations, (d) requiring the IESO, OPA and the Board to enter into contracts relating to the provision of services and such other matters as the Lieutenant		

	Governor in Council considers necessary or advisable, (i) to assist the Board and the Market Surveillance Panel with respect to market surveillance of the IESO-administered markets, (ii) to assist the OPA with respect to the forecasting of electricity demand and the adequacy and reliability of electricity resources for the medium and long term **Conservation measures** • Subject to section 71 of the *Ontario Energy Board Act, 1998* and such limits and criteria as may be prescribed by the regulations, a transmitter, distributor or the IESO may provide services that would assist the Government of Ontario in achieving its goals in electricity conservation, including services related to, (a) the promotion of electricity conservation and the efficient use of electricity; (b) electricity load management; or (c) the promotion of cleaner energy sources, including alternative energy sources and renewable energy sources.		
(d) It can, in the normal course of its operations, maintain its operations and	• IESO is a not-for-profit organization, non-taxable, corporation established pursuant to Part II of the *Electricity Act*, 1998.	• Characteristic is met. • IESO does not receive transfers from the Province of Ontario and has demonstrated its ability of maintaining its operations and meeting its liabilities	

meet its liabilities from revenues received from sources outside of the government reporting entity.	• IESO does not receive transfer from the Province. All its costs are to be recovered from the market participants.	without relying on the Province of Ontario.	

A GBE should, in the normal course of its operations, be able to maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity. These revenues include not only amounts from the sale of goods and services, but also transfers received from other governments or sources outside of the government reporting entity. (PS 1300.30)

3. Government transfers are defined in GOVERNMENT TRANSFERS, Section PS 3410.

When determining if an organization can maintain its operations and meet its liabilities with revenues received from outside of the government reporting entity, the following factors should be considered:

(a) the organization's history of maintaining its operations and meeting its liabilities;

(b) whether the organization would continue to maintain its operations and meet its liabilities without relying on sales to, or subsidies in cash or kind from, the government reporting entity;

(c) past, present and future economic conditions within which the organization operates; and

(d) whether the organization has realistic and specific plans that show how it expects to be able to maintain its operations and meet its liabilities in the future. (PS 1300.31)

IESO does not receive transfers from the Province of Ontario and has demonstrated its ability of maintaining its operations and meeting its liabilities without relying on the Province of Ontario. As per the EA, IESO is permitted to recover the costs of anything done in connection with the IESO-controlled grid or the IESO-administered markets. As a result, the fees charged to the market participants cover all the costs incurred by IESO.

Although the IESO has a note payable to the OEFC of $90 million, loans are not considered transfers from a government provided it has the ability to repay the loans received.

Other considerations

The majority of the market participants reports either under IFRS (or US GAAP for OPG and Hydro One). The use of IFRS by IESO would facilitate the comparison with the market participants. It should be noted that the Alberta Electric System Operator ("AESO") a\has adopted IFRS as its accounting framework.

Many of the WSIB organizations across Canada are considered GBE and, as a result, report under IFRS.

Although IESO has received rate orders to recover in its future rates certain costs charged to either the statement of operations or accumulated deficit (e.g. smart metering expenses charge to statement of operations and, actuarial losses and other PSAB transition item charged to accumulated deficit), these costs have not been recognized as regulatory assets as it is unclear whether PSAB permits the recognition of the economic impacts of rate regulation. As IESO is an entity regulated by the OEB, the use of IFRS by IESO would permit to recognize the economic impacts of rate regulation approved by the OEB.

Conclusion: IESO

PS 1300, DEFINITIONS

.04 A **government component** is an integral part of government, such as a department, ministry or fund. It is not a separate entity with the power to contract in its own name and that can sue and be sued.

.05 A **government organization** is any organization controlled by a government that is a separate entity with the power to contract in its own name and that can sue and be sued.

.06 A **government business enterprise** is a government organization that has all of the following characteristics:

(a) It is a separate entity with the power to contract in its own name and that can sue and be sued.

(b) It has been delegated the financial and operational authority to carry on a business.

(c) It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity.

(d) It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

.07 A **government not-for-profit organization** is a government organization that has all of the following characteristics:

(a) It is a separate entity with the power to contract in its own name and that can sue and be sued.

(b) It has counterparts outside the public sector as defined in paragraph .02.

(c) It is an entity normally without transferable ownership interests.

(d) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.

(e) Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

.08 An **other government organization** is a government organization that has all of the following characteristics:

(a) It is a separate entity with the power to contract in its own name and that can sue and be sued.

(b) It is neither a government business enterprise nor a government not-for-profit organization.

.09 A **government partnership** is not a government organization but is a contractual arrangement between the government or a government organization and a party or parties outside of the reporting entity that has all of the following characteristics:

(a) The partners co-operate toward achieving significant, clearly defined common goals.

(b) The partners make a financial investment in the government partnership.

(c) The partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis.

(d) The partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

25A A **governmental unit** is a government component, government not-for-profit organization or other government organization.

Conclusion: Based on the above definitions, IESO is neither a government component, nor a government not-for-profit organization nor a government partnership. If it is determined that IESO is not a GBE then it would therefore be classified as an OGO.

- For purposes of preparing general purpose financial statements, **GBEs** apply the standards for **publicly accountable enterprises** in Part I of the CPA Canada Handbook – Accounting (i.e. IFRS). (Introduction to public sector accounting standards, paragraph 17)
- For purposes of preparing general purpose financial statements, **OGOs** would normally apply the standards for governments in the PSA Handbook. When these standards do not meet their financial statement users' needs, the standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting should be considered. The standards determined to be most appropriate should be disclosed and consistently applied. (Introduction to public sector accounting standards, paragraph 19)

PS 1000, GOVERNMENT OPERATIONS

.06 Governments are inherently different from businesses. The unique characteristics of government have reporting implications as outlined in Appendix A.

.07 The objectives of financial reporting for governments and business are not the same. Specifically, the accounting standards for business do not adequately prescribe the recognition, measurement, presentation and disclosure of government financial information that is needed for accountability by governments and useful for decision making by the users of government financial statements.

.08 The goals of government are not the same as those of business. The primary goal of a business is profit and its resources are employed to that end. Investors put up capital in expectation of a return, and financial statements report the success or failure of the business in providing that return. Results of operations are measured and reported in terms of profit or loss and it is added to or deducted from the owners' investment to measure financial position. Annual and accumulated earnings or losses are key measures of the performance of a business.

.09 Governments differ from business in both their objectives and financing. In general, governments provide public services and redistribute wealth for a variety of social and economic purposes. The delivery of a service does not, however, normally give rise to revenue, and the payment of taxes does not necessarily entitle a taxpayer to any particular public service or benefit. Because governments are granted the power to tax, their revenues are not substantially dependent upon voluntary contributions nor on the profitable sale of goods and services in the marketplace. Thus, except for commercial-type activities, the relationship between revenues and costs in any given period is not the same for government as it is for business.

.10 In any given period, a government may finance its operations from tax and other revenues or by borrowing or incurring other liabilities. The financial resources required are forecast and the government's financing plan is set out in the budget. Financial statements report the actual results of government operations and the extent to which revenues raised in the period were or were not sufficient to meet the expenses of that period. Users of the statements look to the operating surplus or deficit for the period, both on its own and in relation to the government's plan, in evaluating the government's fiscal management. Expenses, however, do not necessarily represent the total financial resources required. Governments, for example, also spend, lend and invest in addition to consuming economic resources in each accounting period. It is, therefore, also important to provide information about how a government financed its activities and met its cash requirements.

.11 Over the years, a government accumulates liabilities that must be settled and assets that provide resources for future operations. Information that reports the extent of the financial obligations that will have to be settled, or the extent of the assets that are available for future operations, is useful because it bears directly on future revenue requirements and on a government's ability to settle its obligations and finance its operations.

.12 The information needed to promote accountability and to aid understanding and assessments of government operations extends beyond reporting surpluses or deficits. For example, financial statements should provide information that describes the nature and purpose of government spending and the sources of its revenues and financing. They should also provide information that describes a government's non-financial resources that can be used in future operations and the cost of using those resources in service delivery. They should also provide information on investments and on potential obligations that may result from guarantees or indemnities.