Message

Sent: 2018-05-01 9:39:14 AM
To: Anthy Lovachis [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=42a8bb25d4b341b6aa9c16b1ddbc0790-Anthy Lovac]
Subject: RE: Media Inquiry--The IESO's adoption of rate-regulated accounting

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From: Anthy Lovachis
Sent: April 30, 2018 5:25 PM
To: Jordan Penic
Subject: RE: Media Inquiry--The IESO's adoption of rate-regulated accounting

Updated response:

An internal review of IESO's accounting policies was initiated in early 2017 as a result of a conversation with the Office of the Provincial Controller. The IESO worked with KPMG on the review and determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in the IESO financial statements. *Throughout the IESO's consideration to change accounting practices the IESO was also engaged with the government and its external auditors to ensure that any change would be able to accommodate current and future government policy, including the Fair Hydro Plan.*

In late February IESO management discussed the review of accounting policies with the IESO's Audit Committee, a sub-committee of the IESO's Board of Directors. At this meeting, the Committee asked management to undertake further work and to report back with a recommendation. When undertaking this work, the Committee asked that management consider the changes on their own, irrespective of the Fair Hydro Plan, in order to determine whether they were suitable for the IESO. This is what Mr. Gregg is referring to in the specific Standing Committee on Public Accounts passage referred to in your questions.

This request from the Audit Committee to management was made to ensure that the changes to the accounting policies were appropriate and suitable for the IESO. Ultimately, the IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees. Additionally, the IESO determined that recognizing regulatory assets would provide more transparency into the substance of certain accounts it oversees. The new accounting policies were adopted on March 15, 2017.

The IESO's market accounts demonstrate the amounts due to and from market participants. The IESO records its regulated assets and liabilities within its market accounts, which in 2016 and 2017 included the deferred Global Adjustment variance, the Regulated Price Plan (RPP) variance, the Ontario Electricity Support Program (OESP) variance, and the Rural or Remote Rate Protection (RRP) variance. As a rate-regulated entity, the IESO establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings.

I couldn't quite figure out where to put the following line, so I've left it out for now. Let me know if you think we can/should insert it somewhere:

Throughout considerations to change accounting practices the IESO engaged the Ministry and its external auditors to ensure that any change would be able to accommodate current and future government policy.

From: Anthy Lovachis
Sent: April 30, 2018 3:01 PM
To: Jordan Penic
Subject: FW: Media Inquiry--The IESO's adoption of rate-regulated accounting
Importance: High

Draft responses are below. Just sent this out a little while ago – I wanted to ensure the finance/settlements folks are comfortable with the last response.

From: Anthy Lovachis
Sent: April 30, 2018 2:38 PM
To: Jeannette Briggs; Susan Nicholson; Michael Boll
Subject: RE: Media Inquiry--The IESO's adoption of rate-regulated accounting
Importance: High

Hi everyone:

We've received further questions from the Globe which I've tried to respond to below. Can you have a look and let me know if you have any comments/questions? I believe we're trying to finalize either today/tomorrow.

Thanks,
Anthy

From: John Cannella
Sent: April 27, 2018 4:09 PM
To: Jordan Penic
Cc: Andrew Dow; June Too; Anthy Lovachis
Subject: Media Inquiry--The IESO's adoption of rate-regulated accounting
Importance: High

Jordan—see inquiry below from Matthew.

John

From: McClearn, Matthew [mailto:MMcClearn@globeandmail.com]
Sent: April 27, 2018 4:05 PM
To: John Cannella
Subject: The IESO's adoption of rate-regulated accounting

John:

Here's that passage I was telling you about. It's from the Hansard from the Public Accounts Committee proceedings on Feb. 28th:

> Mr. Peter Gregg: There's obviously awareness of decisions that are being made out in the broader public sector, but I would say that the board, most particularly the audit committee, when considering the change to rate-regulated accounting, did not do it on the basis of having to do it for the fair hydro plan. Management was asked to look at this—regardless of fair hydro, regardless of anything like that—"Is this the right thing to do?"
> That was the work we engaged KPMG to look at, and that's when we got the advice that came back to say, as I said, that six of the other eight independent system operators who manage the North American grid do the same rate-regulated accounting. It also gave the ability for us to more appropriately disclose the $17 billion of

market activity that comes through our systems. Before we made this change, that was not represented in our financials adequately. We believe this gives much better transparency to those transactions.

My questions:

- Who asked IESO management to consider changing to rate-regulated accounting?

In the above passage from the Public Accounts Committee meeting on February 28, Mr. Gregg is referring to the IESO's Audit Committee, a sub-committee of the IESO's Board of Directors. When considering the changes in accounting policies, the Audit Committee asked management to consider the changes on their own, irrespective of the Fair Hydro Plan, in order to determine whether the changes were suitable for the IESO.

- When was this request made, and in what form?

The request was made verbally at an Audit Committee meeting in early 2017.

- Why was the request made?

The request was made to help ensure that the changes to the accounting policies were appropriate and suitable for the IESO. Ultimately, the IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees. Additionally, the IESO determined that recognizing regulatory assets would provide more transparency into the substance of certain accounts it oversees.

- During what period did the IESO consider making the change?

The review began in early 2017 and ended when the IESO Board of Directors approved changes to its accounting policies on March 15, 2017.

- Mr. Gregg said that adopting rate-regulated accounting "also gave the ability for us to more appropriately disclose the $17 billion of market activity that comes through our systems." Please explain the connection between adopting market accounts and adopting rate-regulated accounting?

The IESO's market accounts demonstrate the amounts due to and from market participants. The IESO records its regulated assets and liabilities within its market accounts, which includes the deferred Global Adjustment variance, the Regulated Price Plan (RPP) variance, the Ontario Electricity Support Program (OESP) variance, and the Rural or Remote Rate Protection (RRP) variance. As a rate-regulated entity, the IESO establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings.

Thanks for considering these questions. Have a great weekend. Regards,

Matt.

THE GLOBE AND MAIL

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