



Independent Electricity System Operator

1600-120 Adelaide Street West
Toronto, ON M5H 1T1
t 416.967.7474
www.ieso.ca

September 22, 2016

Sent by Email, Courier & RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: IESO Written Submission – Consultation on the Regulatory Treatment of Pensions
and Other Post-Employment Benefit Costs
Board File Number EB-2015-0040**

In its August 10, 2016 letter as part of EB-2015-0040, the Ontario Energy Board (“Board” or “OEB”) identified that it is seeking submissions from interested parties on two objectives:

1. Principles that the OEB should adopt for purposes of assessing pension and OPEB costs in rate applications, including any principles the OEB should adopt in considering the appropriate rate mechanisms for cost recovery, and
2. Options for rate mechanisms for cost recovery.

While the Independent Electricity System Operator (“IESO”) has not been an active participant in the consultation to date, it is pleased to be able to provide a submission on these objectives. Due its unique nature and structure as set out in legislation, the IESO is limiting its comments on the two identified objectives relative to it.

While the IESO understands the Board’s objective to apply consistent treatment for recovery of pension and OPEB costs through rates, it does not believe that all entities should be treated in one manner.

Unlike most entities the Board regulates, the IESO is a public sector entity which does not pay income taxes or Payments in Lieu of Taxes (PILs), and the IESO’s financial statements are required to be prepared in accordance with Canadian public sector accounting standards. In its May 2, 2016 report to the Board, KPMG recognized that the IESO uses Canadian public sector

Ms. Kirsten Walli
 September 22, 2016
 Page 2

accounting standards and that these standards require use of the accrual basis of accounting for financial reporting.¹

The *Electricity Act, 1998* (“Act”), the legislation establishing and governing the IESO, sets out additional characteristics that are unique to the IESO. The Act establishes that the business 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 – in other words the IESO is a not for profit entity without share capital. The financial structure of the IESO mirrors that of the Board and as far as the IESO is aware, it is the only entity licenced by the Board structured in this manner and the only regulated entity that is required by legislation to be a not for profit entity.

The Act also requires that the IESO not file its proposed expenditure and revenue requirements for the fiscal year and the fees it proposes to charge during the fiscal year to the Board for review until after the Minister approves the IESO’s proposed business plan for the fiscal year. Once filed, *the Board may approve the proposed expenditure, revenue requirements and proposed fees or may refer them back to the IESO for further consideration.* For the IESO to implement any new or additional requirements that impact the IESO’s expenditure, revenue requirement or fee they may need to be included in the business plan, which is required to be submitted to the Minister of Energy at least 120 days before the beginning of each fiscal year.

Any difference between OPEB expenses and OPEB benefit payments in a given year is applied to the IESO’s debt with any resulting decrease in interest charges benefitting Ontario’s ratepayers. As a result, any requirement for the IESO to establish a separate account and pay interest on the balance for any differences between amounts collected and disbursed will not result in a benefit to Ontario ratepayers. For reference, 2015 OPEB expenses were \$6.9 million and the OPEB benefit payments were \$2.3 million, a difference of \$4.6 million.

The IESO does not believe it is practical or useful to apply consistency of reporting methods that the Board will require from for profit enterprises with share capital to the IESO. Such reporting would result in a need for two different sets of financial statements which would cause additional costs through the extra work burden and audit work that would be required. Additionally, having two sets of financial statements could raise confusion around both business plan approval, the IESO’s Revenue Requirement Submission to the Board, and the IESO’s audited financial statements.

Conclusion

Given the reasons stated above, the IESO does not support having additional reporting, regulatory requirements or the establishment of variance accounts for its pension and OPEB costs, including having these costs assessed, reported on or reviewed in the same manner as for

¹ KPMG Report to the Ontario Energy Board Report on Pension and Other Post-Employment Benefit Costs, May 2, 2016, page 105.

Ms. Kirsten Walli
September 22, 2016
Page 3

profit entities that are rate regulated. Requiring the IESO to prepare its financial statements in the same manner as for profit rate regulated entities would not take into account the IESO's legislated structure, which is different than these entities.

All of which is respectfully submitted,



Nancy Marconi
Senior Manager, Regulatory Affairs

cc: Ted Antonopoulos, Director Rates, OEB