empowering choice

2000 ANNUAL REPORT

IMO Independent Electricity Market Operator

Letter to the Minister

To the Honourable Jim Wilson,

I am pleased to submit to you the Independent Electricity Market Operator's (IMO) 2000 annual report for the year ended December 31, 2000. This year end report contains discussion and analysis of issues and initiatives.

We want to thank you and your staff at the Ministry of Energy, Science and Technology for your cooperation and support during this period of great change in Ontario's wholesale electricity market.

James C. Baillie
Chairman

Contents

About the IMO

The Independent Electricity Market Operator is responsible for ensuring the safe and reliable operation of Ontario's bulk electrical system – one of the most diversified, reliable and efficient in the world. In addition, the IMO is leading the drive to introduce the wholesale segment of a competitive, deregulated electricity marketplace in Ontario, at a date to be determined by the Ontario Ministry of Energy, Science and Technology.

The IMO is a non-profit, regulated corporate entity without share capital, established by the Electricity Act 1998 (Ontario). It is independent of all other players in the industry and is managed in the interest of the marketplace.

Chairman's Message

When the Ontario government proclaimed the Electricity Act in November 1998, it set in motion a process to revolutionize the way power is bought and sold in Ontario by introducing two "new" concepts to the supply of electricity – competition and choice.

Working in cooperation with our market participants, along with the Ontario Energy Board and the Ontario government, IMO staff have been developing the systems, rules and processes to ensure that a deregulated Ontario marketplace operates in an efficient and dynamic manner that benefits consumers and producers alike.

Initially, we had hoped the Government would introduce the new electricity market by November 2000. This did not happen for a number of reasons – including the many technical challenges faced by the IMO and market participants as well as the experiences in some other deregulated electricity markets. The IMO believes the decision to delay the market opening was prudent. IMO staff and market participants needed more time to get new systems in place, test equipment and finalize various processes.

However, much progress was made in 2000. More than 2000 people from over 400 organizations were trained by the IMO. Many of the systems and processes for running the new market were put in place and structured testing of these systems was initiated.

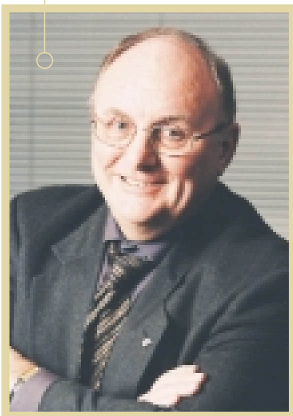
The IMO is confident that we can successfully deliver the components of the market for which we are responsible. But having said that, we are not blind to some of the problems experienced in other deregulated electricity markets. Every market faces its own distinct challenge. Ontario is strongly positioned for deregulation thanks to our balanced supply of generation, and our significant and expanding interconnections with other jurisdictions. The new market processes will provide the signals to help ensure that balance remains.

Those signals are essential to the success of the new market. Private investors will not commit to new generation or transmission capacity here unless they know what the rules are, and are confident they will be consistently applied. That various organizations are considering commitments that would aggregate more than $3 billion in new investment indicates a good comfort level with developments to date. The IMO will continue to contribute to this confidence in the market, thereby helping to ensure a strong supply-demand balance in Ontario – while enabling more consumer choice.

During the past year the IMO has made excellent progress in addressing the wide-ranging and complex issues confronting us. I am grateful to the members of our Board of Directors for their consistent support. I also want to thank the IMO staff for their great efforts. Their expertise, professionalism and dedication to excellence gives me great confidence as we move closer to a deregulated electricity market in Ontario.

James C. Baillie
Chairman of the Board

President's Report



In 2000, the IMO made great strides towards the implementation of a competitive wholesale electricity market in Ontario.

We began implementing the new systems and processes we need to continue to effectively manage the integrated operation of the Ontario power system and to introduce a dynamic wholesale electricity market for the benefit of all participants. I'm proud to report that these major technology and business engineering projects are now on schedule and on budget.

The IMO technical panel, which includes representatives from key stakeholders, continued the development of the rules needed to operate the marketplace effectively. We studied what was happening elsewhere and learned from those experiences – while recognizing that no two markets are the same.

We strengthened our relationships with other Independent System Operators, particularly those in the northeast United States, based on the shared belief that the future creation of an even larger homogeneous market will mean even more competition, more choice and drive out more costs.

Finally, we moved forward in putting together the organization we need to run this new and dynamic business, hiring special expertise where needed and training our own people to provide them with the skills that will be required for future success.

We've been fortunate to be able to build from strength – our world-class expertise and decades of experience operating a major integrated power system. This was reinforced once again in 2000 as we maintained an extremely high level of power system reliability, exceeding both our own targets and those of the North American Electric Reliability Council.

For all those reasons we have moved into the new year with confidence – confident that we'll have our systems in place and tested by mid-2001; and confident that we will deliver and maintain a competitive wholesale segment of the electricity market that will bring greater choice and encourage investment and growth in Ontario.

I want to thank our employees who have put in long hours and made the extra effort to ensure we'll be ready for the new market. I also want to thank all the market participants who are traveling this journey with us. And I look forward to others coming forward and joining us as we take the next exciting step into an open market.

Dave Goulding
President & Chief Executive Officer

experience and expertise

"All of the operators have gone through extensive training on the new systems in preparation for market opening. We're very confident with the new tools and are looking forward to the opportunity to put them into action."

Laurie Hay
System Control Centre

Our operators combine many years of experience running one of North America's largest and most diversified power systems with some of the most extensive training in the industry.

Balancing the demand for and supply of electricity on a minute-to-minute basis to meet the needs of the more than 11 million people of Ontario is the responsibility of the IMO's System Control Centre. In 2000, the centre once again met or exceeded every performance target of the IMO and the North American Electric Reliability Council (NERC). And once again, Ontario's bulk electrical system was one of the most reliable and efficient in the world – providing electricity to consumers across the province without a major or prolonged interruption in service.

This performance is a testament to the experience and expertise of the operators who staff the control centre. They combine many years of experience operating one of North America's largest and most diversified power systems with some of the most extensive training in the industry. Ten to fifteen per cent of operator time annually is spent in training – a large investment, but one that pays big dividends when it comes to power system performance.

The operators are on the job 24 hours a day, seven days a week, monitoring and directing the generation and delivery of electricity throughout the province and to and from other interconnected jurisdictions.

Information is an essential commodity for the Centre. Every two seconds, ten thousand pieces of information are automatically received from across the province – from remote terminals that report on voltage levels, line flows and the status of equipment.

With the introduction of both a new energy management system and a state-of-the-art market operations system, operator training has intensified. Operations staff will receive up to 35 days of intensive training on the systems prior to the operational dry run (an extensive simulation of the new market in action). In addition, all operating staff achieved NERC certification last year.

Once the new market opens, the System Control Centre operators will be equipped with the automated tools, the training and the know-how to operate the integrated energy management and market operations systems – ensuring both are run efficiently and intelligently for the benefit of market participants and Ontario electricity consumers.

new tools for the new market

"Our IT people are very excited about the new systems and very confident of success as we move closer to market opening. The new tools will allow us to ensure we have both a reliable, responsive power system and an efficient, competitive market"

Bill Carson
Information Technology Operations

The critical importance of getting the new systems in place before the market opens has meant that project management has been a top priority over the past year.

A major focus for the IMO in 2000 was the implementation of a new, more advanced energy management system to control the flow of electricity in Ontario.

Operating a power system as large and complex as Ontario's requires sophisticated automated tools. The IMO's current energy management system has served the province well over the years, but is no longer adequate to meet Ontario's expanding needs.

At the same time, in preparation for the opening of the wholesale electricity market, a new market operations system is also being implemented.

There are clear advantages in bringing a new energy management system and a new market operations system on line in parallel. Installation times are compressed, integrating the systems is easier as the main work can be done and tested before the systems go operational, and staff training can focus on the integrated operation of the systems – rather than on each separately.

The critical importance of getting the new systems in place before the market opens has meant that project management has been a top priority over the past year. Although the systems are being used elsewhere, no two markets are the same and there has been a significant degree of customization required to meet Ontario's specific needs.

The systems are now in the market-testing phase, and project staff are beginning to work with key departments to train operators on the new systems. Both the control centre operators and the supporting information technology teams are eager to see the new systems in action.

Although IMO staff have every confidence in the new systems, the existing energy management system will continue to operate in parallel with the new system for at least the next year or two. This will help ensure that any potential glitches with the new system do not seriously impact the critical flow of power in the province.

forecasting, assessing, planning

"We are eager to attract new generators to Ontario, but it's critical that we understand how new projects will impact the overall system. That way we can avoid any problems and ensure the continued effective and reliable operation of the system for the benefit of all participants."

Barbara Constantinescu
Connection Assessment

In preparing for the move to a competitive electricity marketplace, the IMO made strengthening its forecasting and assessment abilities a key priority in 2000.

Understanding and accurately predicting the demand for power in Ontario is critical to ensuring an adequate supply of electricity is available as needed. It is also key to maintaining a good balance between energy demand and supply, helping ensure the new wholesale market will operate effectively.

IMO staff have extensive experience and expertise forecasting energy demand and with the approach of a competitive market this capability has been strengthened.

IMO staff have extensive experience and expertise forecasting energy demand, and with the approach of a competitive market, this forecasting capability has been strengthened and expanded. At the same time, a concerted effort has been made to share this information over the IMO website and through other means with market participants and other key stakeholders.

Power demand in the province is forecast up to 10 years ahead – both for the province as a whole and for specific regions. Coupled with these forecasts are regular adequacy assessments to determine if there is sufficient generation in place, along with adequate transmission capability, to deliver the required electricity where and when it's needed.

These forecasts provide vital information to market participants. The longer-range forecasts send important signals about the need for additional generation and transmission, encouraging new and existing participants to take advantage of potential opportunities. The shorter-term forecasts help them schedule maintenance such that demand and supply remain in balance.

In addition, IMO meteorologists also provide weather forecasts for IMO System Control Operators and market participants on a daily and even hour-by-hour basis when required, and up to 10 days ahead. This helps in planning for potential weather-related problems such as thunderstorms, freezing rain, heavy snowfalls, extreme cold or hot temperatures, even the amount of brightness in the day – factors which all impact electricity demand.

Another key responsibility of IMO staff is assessing the impact of potential new projects on the reliability of the overall system. It is not enough to simply add generation, as required, to the grid. It is critical to assess and plan for any enhancements to the transmission network that must be made to ensure the new project does not cause problems now or in the future.

settling accounts in a dynamic market

"Our people have extensive billing experience and, coupled with the proven state-of-the-art data system we've installed, this gives me a lot of confidence as we move towards market opening."

Victor Wong
Settlement Support

In an open and dynamic marketplace, information is vital – and no information is more critical to the organizations that will participate in Ontario's competitive electricity market than the price and volume of electricity as it is bought and sold across the province.

In 2000, the IMO helped ensure that the approximately 2000 sophisticated meters required to record this vital data would be in place across the province.

When Ontario's wholesale electricity market opens, 2000 electricity meters positioned at generator and customer sites across the province will record data every five minutes and be read by the IMO every day.

The competitive wholesale market planned for Ontario – where prices will rise and fall with demand and supply – would not be possible without the advanced energy meters and data management systems that are now available.

When Ontario's wholesale electricity market opens, the approximately 2000 electricity meters positioned at generator and customer sites across the province will record data every five minutes and be read by the IMO every day. The energy volume information from the meters will be calculated together with the price of electricity at that minute. And that information, in turn, will be tabulated with all the other readings and calculations through the day to produce for each market participant a daily settlement statement. Ten working days later, each participant will receive an official settlement statement for that day. Prior to a monthly statement, time is allowed for the information to be checked and any disagreements to be resolved.

The end result will be a huge volume of continually updated data that is an order of magnitude greater than the information now required to produce monthly statements. The new process depends upon state-of-the-art automated tools and systems, and these have undergone extensive testing over the past year in preparation for the new market.

The final testing of the sophisticated data collection and billing systems will come with the planned operational dry run, which will allow some final fine-tuning before the systems "go live." The challenge will be in running two systems during that period – the existing billing system to maintain revenue flow while operating in parallel the new system, but without creating real invoices or impacting the actual billing.

Just as important as testing the settlement system is ensuring market participants understand how the billing works. This will be a major educational challenge in the early stages of the new market, but should get easier as the participants gain familiarity with and confidence in the system.

ensuring a fair and efficient market

"Our surveillance people have tremendous expertise in economics, competition law and the electric power industry. They have a key role to play in ensuring that market rules are followed, competition is fair and consumers are protected from potential market abuses."

Harry Chandler
Market Assessment

The rules underpinning the new open electricity market are designed to promote fair competition and customer choice.

In 2000, a great deal of work was put into developing a well-designed structure and putting mechanisms in place to ease the transition to a competitive marketplace. Numerous potential participants in the market and numerous market experts were involved in the design throughout the process – including generators, transmission companies, and large consumers, along with experts in institutional design economics.

The goal of market surveillance is to encourage the right behaviour to foster a smoothly functioning market that benefits producers and customers alike.

But putting in place effective structures and rules is only half of the equation. The other half is market surveillance – monitoring the markets and the behaviour of the participants to identify flaws or conduct that is detrimental to the fair and efficient operation of the market. In other words, making sure the rules are followed and that they promote the benefits of competition.

This is an important responsibility, and it is one that will be shared among the federal Competition Bureau, the Ontario Energy Board and the IMO.

For its part, the IMO will be responsible for three main areas:

- identify inappropriate market conduct leading to abuses of market power
- identify flaws in the market rules – through monitoring and investigations – and recommend rule changes to better facilitate the development of the marketplace
- identify flaws in the underlying structure of the market that create barriers to fair competition.

To achieve all of these, a special IMO market assessment unit – with broad experience and expertise in economics and competition law – will monitor the marketplace on a daily basis. The group will work closely with the Market Surveillance Panel – an autonomous, expert body with the power to obtain sensitive commercial information from market participants and, where necessary, initiate investigations.

In addition to its surveillance function, the market assessment unit is also responsible for promoting compliance with market rules. The goal in both cases is to encourage the right behaviour so as to foster a smoothly functioning market that benefits producers and customers alike.

helping market participants get ready

"IMO Market Relations Consultants take great care in understanding the needs of market participants and in being their advocate. They're the voice that makes sure our processes and procedures take into account life from the customers' perspective."

Elizabeth Morris
Market Relations

For most of the organizations planning to participate in Ontario's new wholesale electricity market, this will be their first experience in a competitive market. For the first time, they will participate in a dynamic market where the wholesale price of electric power will no longer be at an annual fixed rate. The spot market energy price will change from hour to hour, day to night and from season to season in response to changes in demand or supply.

Our customer help centre is there to provide full and timely information to help participants get ready and, at the same time, reflect the concerns of the participants back into the IMO.

Ensuring both the buyers and sellers of electricity understand how the market will work, and their roles within it, is vital to the success of the market.

In 2000, the IMO put a top priority on helping participants understand and prepare for the opening of the new market. Over 2000 people, representing more than 400 organizations, have gone through the IMO's training programs. IMO staff have also been participating in conferences, knocking on company doors, making presentations and providing online information to help get people thinking about and preparing for a competitive wholesale electricity market.

In addition to these efforts, the staff in the IMO's customer help centre have answered literally thousands of calls, emails and faxes from potential participants, providing everything from general information about the new market to specific help filling out the necessary forms or ensuring their information systems are compatible.

To a large extent, the Market Relations Consultants who staff the help centre are advocates for the market participants. Their role is to provide full and timely information to help the participants get ready and, at the same time, reflect the concerns of the participants back into the IMO. It's yet another way in which the voices of all participants are incorporated into IMO plans and processes.

FINANCIAL STATEMENTS 2000

Management's Discussion and Analysis

Overview of 2000 Financial Results:

Net income for the year ended December 31, 2000 was $10.2 million as compared with a net loss for the nine months ended December 31, 1999 of $1.6 million. Period to period comparisons show an increase in revenues of $101.4 million, offset partially by an increase in operating expenses and interest of $89.6 million.

Revenues:

In accordance with the "Transitional Revenue Allocation Agreement", the IMO received monthly revenue from certain Ontario Hydro successor companies for system fees and the costs of ancillary services, rural rate assistance and remote subsidies. Revenue received for the year ended December 31, 2000 was $339.6 million as compared with $238.2 million for the nine months ended December 31, 1999.

The following table summarizes the services for which revenue was received in dollars and as a percentage of the total revenue.

	Year Ended Dec. 31/00		*Nine Months Ended Dec. 31/99*	
System fees	$93.4 million	28%	$ 56.9 million	24%
Ancillary services	$102.0 million	30%	$ 75.0 million	31%
Rural Rate Assistance	$127.0 million	37%	$ 95.2 million	40%
Remote Subsidies	$17.2 million	5%	$ 11.0 million	5%

Revenues received for ancillary services, rural rate assistance, and remote subsidies according to the Transitional Revenue Allocation Agreement are agreed to be equivalent to these related expenses, resulting in a neutral impact to the IMO.

Operating Expenses:

Total operating expenses before interest charges for the year ended December 31, 2000 were $324.7 million as compared with $235.9 million for the nine months ended December 31, 1999. The primary operating expenses were the costs of ancillary services, rural rate assistance and remote subsidies at $246.2 million, an increase of $65.0 million from the 1999 reporting period.

The following table summarizes the operating expenses as a percentage of the total costs, excluding interest.

	Year Ended Dec. 31/00	*Nine Months Ended Dec. 31/99*
Ancillary services, rural rate assistance and remote subsidies	76%	77%
Labour	9%	9%
Transition costs	6%	3%
Telecommunication costs	2%	3%
Amortization	3%	4%
Other costs	4%	4%

Interest:

Net interest expense for the year ended December 31, 2000 was $4.7 million compared with $3.9 million for the nine months ended December 31, 1999. The $4.7 million represented interest expense of $6.2 million on the $78.2 million owed to the Ontario Electricity Financial Corporation, for the net assets acquired on the restructuring of Ontario Hydro, and $1.5 million in interest income. The interest income resulted from cash generated in the business that was available for investment purposes. The interest costs related to the Province of Ontario note payable were capitalized as part of Construction-in-Progress.

Cash, Cash Equivalents, and Temporary Investments:

As at December 31, 2000 the IMO had $105.6 million in cash and cash equivalents. At December 31, 2000 all marketable investments were of original terms of less than ninety days and are therefore included in cash and cash equivalents. At December 31, 1999 the IMO had $21.0 million in cash and cash equivalents and $34.2 million in temporary investments for a combined total of $55.2M. The increased balances in cash, cash equivalents, and temporary investments of $50.4 million is primarily the result of borrowings relating to the capital costs of developing and implementing the new wholesale marketplace being drawn in advance of actual spending on the project, and the net income for the year.

Construction-in-Progress:

Construction-in-Progress as at December 31, 2000 was $168.3 million (including interest), an increase of $97.3 million in the year. These costs reflect the capital portion of the systems and processes for the wholesale electricity market which generally relate to the cost of hardware and software required for the operation of the market as well as physical facilities. New systems being developed for the operation of the marketplace include Bidding, Market Interface, Energy Management System, Market Information, Funds Administration, as well as Metering and Settlement systems.

The following table summarizes the components of Construction-in-Progress in dollars and as a percentage of the total costs.

	As at Dec. 31/00		*As at Dec. 31/99*	
Vendor Costs	$111.3 million	66%	$48.0 million	68%
External Labour	$36.1 million	21%	$15.8 million	22%
Internal Labour	$9.7 million	6%	$ 3.5 million	5%
Expenses	$4.9 million	3%	$ 3.0 million	4%
Interest	$6.3 million	4%	$ 0.7 million	1%

Financing Activities:

As of December 31, 2000, notes payable to establish the business and fund the capital portion of the development of the wholesale market totaled $311.5 million, an increase of $150.0 million in the year. The $311.5 million is comprised of $233.3 million in a loan payable to the Province of Ontario, and $78.2 million in a loan payable to the Ontario Electricity Financial Corporation. A further $41.7 million will be advanced from the Province of Ontario in 2001 under an existing loan agreement. During the year the IMO arranged additional financing with the Province of Ontario of $150 million to finance the development of the wholesale market, bringing the total either advanced to date, or to be advanced in 2001, to $275 million. The repayment terms require the IMO to repay the $275 million on November 3, 2003 subject to the IMO having obtained a credit rating of a specified level. The weighted-average interest rate on the balance drawn to date is 5.79%. The full loan balance will bear a weighted interest rate of 6.24% after May 1, 2001.

The IMO issued debt in the form of a note, in the amount of $78.2 million to the Ontario Electricity Financial Corporation in return for net assets transferred from Ontario Hydro on April 1, 1999. The assets were transferred at net book values. The note bears interest at 7.9% and is repayable May 1, 2009.

At December 31, 2000 the IMO had two independent lines of credit, each of $20 million with separate Canadian Chartered Banks. One of the lines of credit expires March 31, 2001 at which point it will not be renewed. Approximately $158 thousand was drawn on the lines of credit as of December 31, 2000.

In addition, the IMO also established a $100 million line of credit with a Canadian chartered bank to fund shortfalls in amounts owed to the IMO by Market Participants for payment to other Market Participants prior to their recovery under the provisions of the market rules.

Management Report

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Independent Electricity Market Operator are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Independent Electricity Market Operator are described in the Summary of Significant Accounting Policies contained in Note 3 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to January 26, 2001.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by PricewaterhouseCoopers LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

INDEPENDENT ELECTRICITY MARKET OPERATOR

On behalf of management,

Dave Goulding
President & Chief Executive Officer

Douglas J. Thomas
Chief Financial Officer

Toronto, Canada
January 26, 2001

Auditors' Report

To the Board of Directors of the Independent Electricity Market Operator ("IMO")

We have audited the statement of financial position of the IMO as at December 31, 2000 and the statements of operations and accumulated surplus (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the IMO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IMO as at December 31, 2000, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
January 26, 2001

Statement of Operations and Accumulated Surplus (Deficit)

(in thousands of Canadian dollars)	For the Year Ended December 31, 2000	For the Nine Months Ended December 31, 1999
	$	**$**
REVENUES (Note 3(b))		
System fees	93,355	56,910
Ancillary services, rural rate assistance and remote subsidies	246,204	181,243
TOTAL REVENUES	**339,559**	**238,153**
EXPENSES		
Cost of ancillary services, rural rate assistance and remote subsidies	246,204	181,243
Labour	30,079	22,374
Transition costs	18,987	7,689
Telecommunications	8,336	6,839
Other costs	12,625	9,499
Amortization	8,446	8,246
TOTAL EXPENSES	**324,677**	**235,890**
Net income before interest	**14,882**	**2,263**
Interest income	1,450	685
Interest expense	(6,168)	(4,556)
NET INCOME (LOSS) FOR THE PERIOD	**10,164**	**(1,608)**
ACCUMULATED SURPLUS (DEFICIT) - BEGINNING OF PERIOD	(1,608)	-
ACCUMULATED SURPLUS (DEFICIT) - END OF PERIOD	**8,556**	**(1,608)**

See accompanying notes to Financial Statements.

Statement of Financial Position

(in thousands of Canadian dollars)	As at December 31, 2000	As at December 31, 1999
	$	**$**
ASSETS		
Current Assets		
Cash & cash equivalents	105,622	20,992
Temporary investments	-	34,172
Amount due under Revenue Allocation Agreement	28,827	26,919
Prepaid expenses & receivables	5,093	2,111
	139,542	**84,194**
Capital Assets *(Note 4)*		
Capital assets in service	58,554	65,423
Construction-in-Progress	168,337	71,011
	226,891	**136,434**
Other Assets		
Prepaid operating expenses	2,100	3,222
Prepaid pension expense *(Note 7)*	21,323	15,778
	23,423	**19,000**
TOTAL ASSETS	**389,856**	**239,628**
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities *(Note 5)*	47,821	59,566
Accrued interest	2,812	2,149
	50,633	61,715
Long Term Debt *(Note 6)*	311,534	161,534
Accrual for Employee Future Benefits Other than Pensions *(Note 7)*	19,133	17,987
TOTAL LIABILITIES	**381,300**	**241,236**
ACCUMULATED SURPLUS (DEFICIT)	**8,556**	**(1,608)**
TOTAL LIABILITIES & ACCUMULATED SURPLUS (DEFICIT)	**389,856**	**239,628**

See accompanying notes to Financial Statements.

On behalf of the Board:

James C. Baillie

Barry E. Chuddy

Statement of Cash Flows

(in thousands of Canadian dollars)	For the Year Ended December 31, 2000	For the Nine Months Ended December 31, 1999
	$	**$**
OPERATING ACTIVITIES		
Net income (loss) for period	10,164	(1,608)
Adjustments for non-cash items:		
Amortization	8,446	8,246
(Increase) decrease in prepaid pension expense	(5,545)	1,013
Increase in accrual for employee future benefits other than pensions	1,146	1,136
	14,211	8,787
Changes in non-cash balances related to operations:		
Increase in current liabilities	1,773	8,546
Increase in prepaid expenses	(1,860)	(4,987)
Increase in amounts due under Revenue Allocation Agreement	(1,524)	(597)
	(1,611)	2,962
Cash Provided from Operations	**12,600**	**11,749**
INVESTING ACTIVITIES		
Net sale (purchase) of temporary investments	34,172	(34,172)
Cost of Construction-in-Progress	(111,409)	(45,185)
Net purchase of capital assets in service	(733)	(2,671)
Cash Used in Investing	**(77,970)**	**(82,028)**
FINANCING ACTIVITIES		
Issue of long-term debt	150,000	83,334
Cash Provided from Financing	**150,000**	**83,334**
NET CHANGE IN CASH & CASH EQUIVALENTS	84,630	13,055
CASH & CASH EQUIVALENTS - BEGINNING OF PERIOD	20,992	7,937
CASH & CASH EQUIVALENTS - END OF PERIOD	**105,622**	**20,992**

See accompanying notes to Financial Statements.

Supplementary Information: *(in thousands of Canadian dollars)*

Interest Paid	**13,831**	**4,545**

Notes to Financial Statements

1. Restructuring of the Ontario Electricity Industry

The North American electrical utility industry has undertaken initiatives to move away from traditional monopolies towards competitive models that are more conducive to customer choice. On October 30, 1998 the Government of Ontario enacted the Energy Competition Act, 1998 to restructure the business carried on by Ontario Hydro and introduce competition.

Prior to the restructuring, Ontario Hydro was a vertically integrated, rate-regulated electricity utility. On April 1, 1999, Ontario Hydro was restructured into a number of successor entities, as follows:

- Ontario Power Generation Inc. (OPG), a generation company;
- Ontario Hydro Services Company Inc., subsequently renamed Hydro One (HO1), a rate regulated transmission and distribution business, which operates certain energy services businesses in an unregulated business environment;
- Independent Electricity Market Operator (IMO), a non-profit organization which is the independent system co-ordinator;
- Electrical Safety Authority (ESA), a non-profit organization, which carries out electrical inspections previously conducted by Ontario Hydro; and
- Ontario Electricity Financial Corporation (OEFC), the continuing Ontario Hydro entity which has the objectives of managing debt, administering assets, liabilities, rights and obligations not transferred to a successor entity, and acting as administrator of the OEFC Pension Plan until arrangements are completed to transfer assets and liabilities to the new pension plans of the successor entities.

2. Commencement of Operations

Independent Electricity Market Operator was created by statute effective on April 1, 1999 pursuant to Part II of the *Electricity Act, 1998*. As set out in the *Electricity Act*, the IMO operates pursuant to a license granted by the Ontario Energy Board. The IMO received from Ontario Hydro certain assets and liabilities, principally those related to the former Central Market Operations business unit of Ontario Hydro. Net assets acquired from Ontario Hydro were $78.2 million, which were financed by the issuance of debt.

The IMO is a not-for-profit, non-taxable corporation without share capital whose objects are set out in Part II, sub-section 5(1) of the Electricity Act as follows;

- to exercise and perform the powers and duties assigned to the IMO under the *Electricity Act, 1998*, the market rules and license;
- to enter into agreements with transmitters giving the IMO the authority to direct the operations of their transmission systems;
- to direct the operations and maintain the reliability of the IMO-controlled grid to promote the purposes of the *Electricity Act, 1998*;
- to establish and operate the IMO-administered markets to promote the purposes of the *Electricity Act, 1998*;
- to collect and provide to the public information relating to the current and future electricity needs of Ontario and the capacity of the integrated power system to meet those needs;
- to participate in the development by any standards authority of standards and criteria relating to the reliability of the transmission systems;
- to work with the responsible authorities outside Ontario to co-ordinate the IMO's activities with their activities.

As specified in the *Electricity Act*, any surplus generated shall be used by the IMO for the purposes of carrying out its objects. The IMO expects to recover any deficits in future system fees, subject to approval by the Ontario Energy Board.

The IMO's target is that the systems, processes and other requirements of the IMO-administered markets will be ready for market operations in the fall of 2001. There remains uncertainty as to the timing of the opening of the market, largely due to factors beyond the control of the IMO. Delays in market opening could impact the ability of the IMO to recover the costs of market development through the levy of system fees. The IMO would need to pursue various financing alternatives should there be an unanticipated delay in market opening.

3. Summary of Significant Accounting Policies

a) Basis of Financial Statement Preparation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The results of operations and cash flows for fiscal 1999 presented in these financial statements reflect the opening balances transferred from Ontario Hydro on April 1, 1999 for assets and liabilities on an historic cost basis and subsequent business for the nine month period ended December 31, 1999. Results of operations and cash flows for fiscal 2000 reflect business for the twelve month period ended December 31, 2000.

b) Revenue Recognition

In accordance with a draft agreement ("Transitional Revenue Allocation Agreement") between the IMO and the other successor entities of Ontario Hydro, the IMO receives system fees and ancillary service fees.

The Transitional Revenue Allocation Agreement, which will cover the transition period from April 1, 1999, to market opening, has not been executed. Accordingly, revenues reported in these financial statements, substantially all of which have been received in cash, are based on agreements that have not been executed and therefore could be subject to change. The IMO is not aware of any circumstances that suggest changes will be made to its revenue allocation.

c) Transition Costs and Construction-in-Progress

The IMO plays a key role in conjunction with future market participants and other stakeholders in the development of the wholesale competitive electricity market in Ontario. As part of this role, the IMO is charged with developing and implementing the systems, including hardware and software, processes and procedures required to operate the competitive marketplace. The development of these systems, processes and procedures is a multi-year effort.

Costs relating to this initiative are either capitalized, based on the expected future benefit after the opening of the market, or charged to current operations. Costs that have been capitalized are included within Construction-in-Progress, while costs charged to current operations are included as transition costs. Capitalized costs generally relate to the costs of physical facilities, hardware and software required for the operation of the market and include costs paid to vendors, internal and external labour, consultants, an applicable share of overhead, and an allocation of interest related to funds borrowed to finance the project. Transition costs, which are charged to current operations generally relate to the design of market rules, market and internal processes and procedures, and training and include costs for internal and external labour, consultants, and an applicable share of overhead.

d) Capital Assets

Capital assets as at April 1, 1999 were recorded at the net book value amounts transferred from Ontario Hydro. Subsequent additions are capitalized at cost, which comprises materials, labour, engineering costs, overheads, and interest applicable to capital construction activities.

e) Amortization

The capital cost of capital assets in service is amortized principally on a straight-line basis over their estimated service lives.

The estimated average service lives in years, from the date the assets were transferred from Ontario Hydro or subsequently acquired, are:

Class	**Estimated Average Service Life**
Administration Buildings	36
Data Acquisition and Computer Systems[1]	4
Computers and Furniture	5

Gains and losses on sales of capital assets and losses on premature retirements are charged to operations as adjustments to amortization expense. Removal costs are charged to amortization expense as incurred.

The estimated service lives of capital assets and the significant assumptions underlying the estimates of capital asset removal costs are subject to periodic review. The impacts of changes in the estimated lives of capital assets are amortized on a prospective basis. The most recent review was completed in fiscal 2000.

f) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, term deposits and other short term investments with original maturity dates of less than 90 days.

g) Temporary Investments

Short-term money market investments with original maturities of 90 days or longer are classified as temporary investments and valued at amortized cost. Premiums and discounts are amortized to income using the constant yield method over the period to maturity.

h) Pension and Other Post-Employment Benefits

The IMO's post-employment benefit programs include pension, group life insurance, health care, long-term disability and workers' compensation benefits.

The IMO accrues obligations under pension and other post-employment benefit ("OPEB") plans and the related costs, net of plan assets. Pension fund assets are valued using current market values. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimates using a measurement date of September 30.

Pension and OPEB expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses, which are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plan. Pension and OPEB expenses are recorded during the year in which employees render services.

i) Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for financial instruments, comprising current assets, current liabilities and long-term debt, approximate to their fair values.

j) Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated in Canadian dollars at the rate prevailing at that date. Exchange gains and losses arising on settlement of foreign exchange transactions are reported in the statement of operations at the date at which the transactions are settled.

k) Use of Estimates

The preparation of the financial instruments in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements. Actual results could differ from those estimates.

[1] The Data Acquisition and Computer Systems (DACS) was previously forecast to be taken out of service by the end of 2001. However, based on the extension in market opening, and the associated impact on the replacement of other assets, DACS is now forecast to be taken out of service by the end of 2002. This has been reflected in the service life utilized in 2000 and resulted in a reduction of amortization expense of $2,393,000 in the year.

4. Capital Assets

Capital assets in service consist primarily of the System Control Centre administration building, data acquisition and computer systems (DACS), computers and furniture.

	As at December 31, 2000			As at December 31, 1999
(in thousands of Canadian dollars)	BOOK VALUE	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Capital Assets in Service	$	$	$	$
Administration buildings	48,505	4,043	44,462	46,646
Data Acquisition and Computer Systems	19,764	10,252	9,512	14,299
Computers and furniture	6,975	2,395	4,580	4,478
	75,244	16,690	58,554	65,423
Construction-in-Progress	168,337	-	168,337	71,011
	243,581	**16,690**	**226, 891**	**136,434**

Interest capitalized to Construction-in-Progress during 2000 was $6,148,510 (1999 - $723,337).

5. Accounts Payable & Accrued Liabilities

(in thousands of Canadian dollars)	As at December 31, 2000	As at December 31, 1999
	$	$
Relating to Revenue Allocation Agreement	20,517	20,133
Relating to capital assets in service	844	-
Relating to Construction-in-Progress	11,710	25,793
Relating to operations	14,750	13,640
	47,821	**59,566**

6. Long-term Debt

(in thousands of Canadian dollars)	As at December 31, 2000	As at December 31, 1999
Notes Payable To	$	$
Ontario Electricity Financial Corporation (OEFC)	78,200	78,200
the Province of Ontario	233,334	83,334
	311,534	**161,534**

Note Payable to OEFC

The long-term note payable to Ontario Electricity Finance Corporation (OEFC) is unsecured, bears interest at 7.9% per annum and is repayable in full on May 1, 2009. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 1 and November 1 of each year.

Notes Payable to the Province of Ontario

The Province of Ontario has agreed to provide unsecured financing to the IMO to a maximum of $275 million, of which $233 million has been drawn. The remaining portion will be drawn on April 5, 2001. The weighted-average interest rate on the balance drawn to date is 5.79%. The full loan balance will bear a weighted interest rate of 6.24% after May 1, 2001. The loan is repayable on November 3, 2003.

The loan agreement provides for an extension of the repayment date if on or before October 27, 2003, the IMO is unable to obtain a credit rating, or has obtained a credit rating below a specific level, to the earlier of March 31, 2005 or six months after which a credit rating is either received or revised to the specified level. The loan will bear interest during the period of extension equal to the floating Bankers Acceptance rate plus 50 basis points.

Credit Facilities

IMO has a revolving credit facility agreement with a Canadian chartered bank, for which approximately $158,000 was drawn at December 31, 2000 and has been included in cash and cash equivalents in the statement of financial position. The agreement provides for the bank to make available to the IMO a committed extendible 364-day revolving credit facility of $20 million for general working purposes. The credit agreement is unsecured. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 5 basis points per annum. Upon acceptance of each Bankers' Acceptance of the IMO by the bank, the IMO shall pay a Stamping Fee of 15 basis points per annum to the Bank.

Additionally, the IMO has an agreement with the bank under which the bank will make available to the IMO a committed, unsecured 364-day revolving credit facility in an amount up to $100 million. This facility will mainly be used to fund shortfalls in amounts owed to the IMO by Market Participants for payment to other Market Participants prior to their recovery under the provisions of the market rules.

IMO also has a revolving credit facility agreement with another Canadian chartered bank. This agreement provides for the bank to make available to the IMO a committed extendible 364-day revolving facility of $20 million for general working purposes. The credit agreement is unsecured. Advances under this facility are available in Canadian dollars by way of prime rate loans, Bankers' Acceptances, and also by way of letters of credit, the latter being subject to a limit of $2 million. Unused portions of this credit facility are subject to a standby fee of 8.5 basis points. This agreement expires on March 31, 2001, at which time it will not be renewed.

7. Benefit Plans

The IMO provides pension and other employee future benefits, comprising group life insurance, long-term disability and group medical and dental plans, for the benefit of current and retired employees.

Pension Plans

From April 1, 1999 to December 31, 1999, the IMO participated in the OEFC Pension Plan, a contributory defined benefit, registered pension plan formerly known as the Pension and Insurance Fund of Ontario Hydro. As part of the restructuring of the electricity industry in Ontario, the assets, liabilities and a share of the OEFC Pension Plan's surplus was notionally allocated to each of the successor entities of Ontario Hydro on April 1, 1999.

The Independent Electricity Market Operator Pension Plan (Plan) commenced on December 31, 1999 and assumed the IMO's share of the pension liabilities of the OEFC Pension Plan on January 1, 2000. The Plan is expected to receive assets from the OEFC Pension Plan in 2001.

In addition to the funded, registered, pension plan, the IMO provides certain non-registered defined benefit pensions through an unfunded, non-registered plan.

Other Employee Future Benefits

The group life insurance, long-term disability and group medical and dental benefits are provided through unfunded, non-registered defined benefit plans.

Summary of Accrued Benefit Obligations and Plan Assets

	2000 Pension Benefits	1999 Pension Benefits	2000 Other Benefits	1999 Other Benefits
	$	$	$	$
Accrued benefit obligation	173,209	164,688	24,580	14,645
Fair value of plan assets	249,295	228,025	-	-
Funded status	76,086	63,337	(24,580)	(14,645)
Prepaid (accrued) benefit cost recognized in the statement of financial position	21,323	15,778	(19,858)	(18,475)

Summary of Principal Assumptions Used to Calculate Benefit Costs and Obligations

	2000 Pension Benefits	1999 Pension Benefits	2000 Other Benefits	1999 Other Benefits
Discount rate	7.0% - 7.45%	7.25%	7.0% - 7.45%	7.0% - 7.50%
Expected return on plan assets	7.25%	7.25%	-	-
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Rate of benefit increases	2.5%	2.5%	-	-
Expected average remaining service life of employees	12 years	10.75 years	12 years	10.75 years

Hospital and drug costs are assumed to increase by 8.0% in 2001 and reduce to 5.0% after 3 years. Other medical and dental costs are assumed to increase by 5.0% per annum.

Summary of Benefit Costs and Plan Contributions

(in thousands of Canadian dollars)	2000 Pension Benefits (12 months)	1999 Pension Benefits (9 months)	2000 Other Benefits (12 months)	1999 Other Benefits (9 months)
	$	$	$	$
Benefit cost (income)	(5,545)	1,013	2,084	1,417
Employer contributions	2	-	669	-
Plan participant's contributions	813	-	-	-
Benefits paid	4,848	4,500	576	2,186

8. Segmented Information

IMO consists of a single business engaged in the operation of the bulk electricity system in Ontario.

9. Commitments

Operating Commitments

The obligations of the IMO with respect to non-cancellable operating leases over the next five years is as follows:

(in thousands of Canadian dollars)

2001	2002	2003	2004	2005
$	$	$	$	$
1,768	1,308	717	586	249

Capital Commitments

As at December 31, 2000, the IMO had non-cancellable capital commitments of $18,955,000.

Board of Directors

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Counsel
Torys

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Hydro One Networks Inc.

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Independent Electricity Market Operator

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Independent Consultant

Aleck Dadson
Director, Government Affairs
Enron Canada Corporation

Julie Girvan
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Manager, Commercial Operations
Ontario Power Generation Inc.

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Independent Electricity Market Operator

Don Thorne
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Milton Hydro-Electric Commission

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Schulich School of Business
York University

Don McFetridge
Professor, Economics
Carleton University

Tom Rusnov
Independent Consultant

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Bruce Campbell
Vice President
Corporate and Legal Affairs

Derek Cowbourne
Vice President
Market Services

Paul Murphy
Chief Operating Officer

Harry Chandler
Director
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Yvonne Murray
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Internal Audit

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Committee of Independent Directors

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Tom Adams
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Ian Delaney
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Ad Hoc Committee of Stakeholder Directors

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