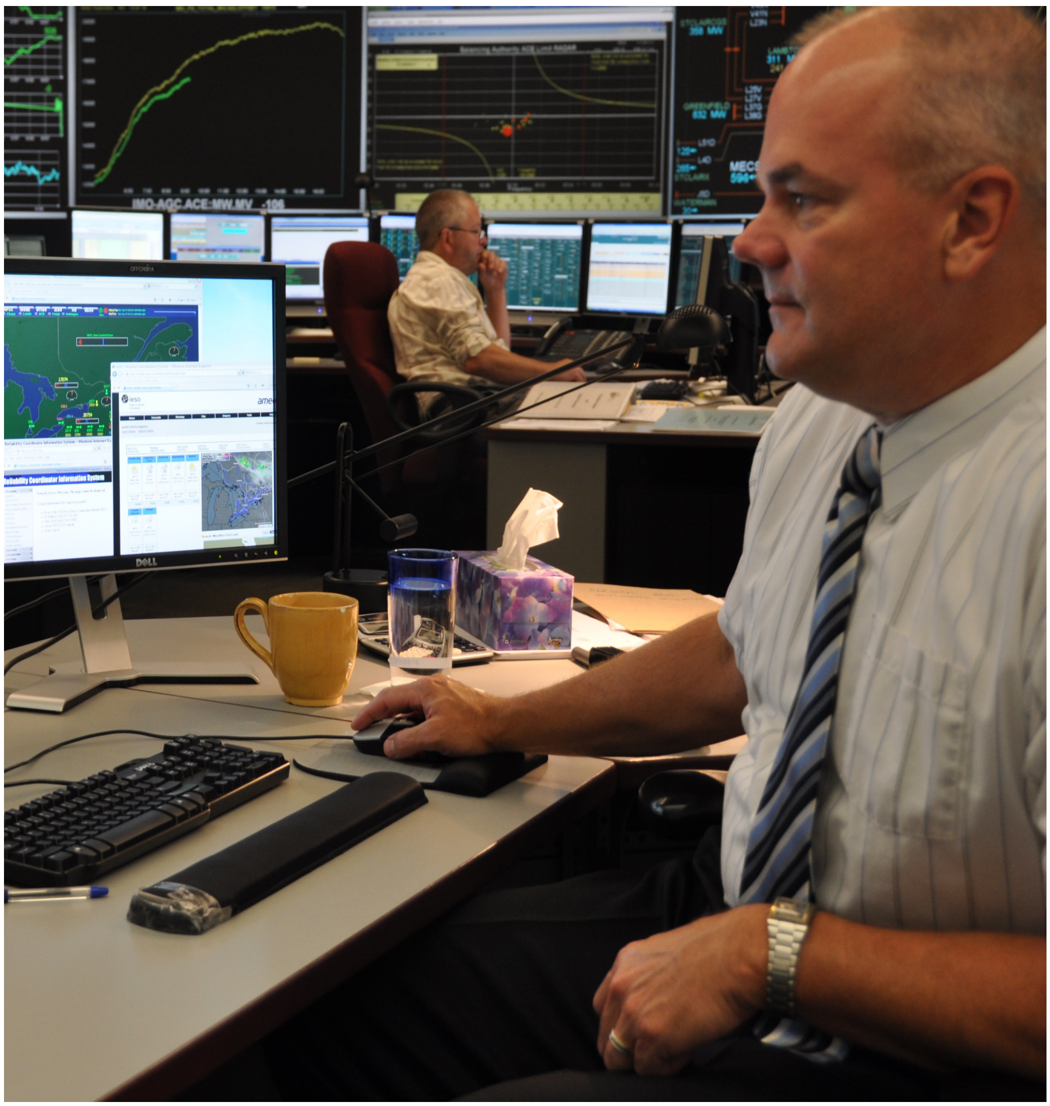


2009 Annual Report

ieso
Power to Ontario.
On Demand.

Table of Contents

Letter to the Minister of Energy and Infrastructure

I am pleased to submit the 2009 Annual Report of the Independent Electricity System Operator (IESO).

Throughout the year, the IESO reliably operated Ontario's power system and efficiently managed the wholesale electricity market in the midst of sector-wide change and evolution. The IESO aggressively managed its finances in 2009, reducing costs by 6.8 per cent while simultaneously maintaining the high level of service that customers and stakeholders expect. We plan no increase in our fee for 2010.

The introduction of the *Green Energy and Green Economy Act, 2009* has had considerable impact on the company and its operations, and the IESO has revised its organizational structure to ensure it can deliver on its core responsibilities in the changing electricity sector.

Engagement with customers and stakeholders remains a priority for the IESO. Survey results show the company continues to be viewed by customers and stakeholders as a competent, professional and technically superior organization that serves as a trusted advisor and operator.

At the foundation of the IESO's success lie its employees. As a direct result of their diligence and expertise, the IESO is well positioned to play an essential coordinating role in the evolution of reliable, sustainable and competitively priced electricity in Ontario.

Paul Murphy
President and Chief Executive Officer

IESO Accomplishments

The shape of Ontario's electricity sector is changing, as new players enter the sector, new types of generation gain traction, and new legislative frameworks facilitate the development of a more sustainable electricity system.

In addition to fulfilling its primary mandate as market and system operator, the IESO is uniquely positioned to play an essential coordinating role in the evolution of reliable, sustainable and competitively priced electricity in Ontario. And while the reliable operation of Ontario's electricity system remains the IESO's main focus, some of the company's processes and practices are changing as implementation of the Government of Ontario's *Green Energy and Green Economy Act, 2009* moves ahead.

Within a very short timeframe, the Act has encouraged the development of new renewable generation resources. It is also driving the enhancement of Ontario's transmission and distribution systems, and will lay the foundation for a smart grid in Ontario. The Act is a far-reaching piece of legislation with implications for most, if not all, departments in the IESO. Preparation for implementation of the Act, and the associated Feed-in Tariff (FIT) program required immediate attention in 2009, and will continue to impact IESO operations in years to come.

The IESO supported the implementation of government policy through its input into the drafting of regulations for connection assessment timelines, the recovery of costs to support government conservation and demand management programs, and the design of the FIT contracts for renewable generation. IESO contributions to the FIT contract design ensured that generators have an incentive, through market price signals, to follow dispatch instructions.

The IESO's corporate performance scorecard represents four strategic perspectives that drive the performance of the company, while the underlying measures assess progress in delivering on its mission and key corporate priorities.

Reliability

From a reliability perspective, the IESO's performance in operating the system and meeting industry expectations was solid. For example, the company maintained its perfect compliance record with the North American Electric Reliability Corporation (NERC) Disturbance Control Standard, which requires the IESO to restore the supply/demand balance within 15 minutes following an unexpected loss of generation. The IESO's reliability performance was reinforced by full compliance with NERC's high risk factor requirements in 2009.

One major contributor to the IESO's routinely high standards of performance is the ongoing training of market participants and IESO control room operators. Participants learn the importance of timely and effective communication through participation in system restoration workshops, post-incident analysis and other channels. IESO efforts to engage its interconnected neighbours in an integrated multi-regional restoration exercise paid off in 2009, when a highly complex outage scenario tested participants' readiness to respond to a widespread disturbance in system operations. Internally, ongoing training of control room operators includes regular event reviews, opportunities to practice abnormal operating conditions through role-playing scenarios and participation in joint training workshops with market participants and representatives from neighbouring jurisdictions across North America. These efforts provide operators with the skills, expertise and tools to ensure the reliability of Ontario's power system.

Compliance with reliability standards is a requirement for operation in North America's integrated electricity system. In November 2009, auditors from the Northeast Power Coordinating Council (NPCC) evaluated the IESO's compliance with the six reliability standards and 13 requirements in the 2009 NERC Compliance Monitoring and Enforcement Program (CMEP) for critical infrastructure protection (CIP). After a thorough on-site audit and evaluation, the IESO was found compliant with all relevant CIP reliability standards and requirements, and praised for the provision of supporting material that was "very well presented and very well organized."

Another IESO priority is to actively contribute to relevant regulatory proceedings in Ontario and support the development of North American reliability standards. In 2009, the IESO provided meaningful contributions to a broad range of regulatory proceedings, both domestically and internationally.

Customers and Stakeholders

The IESO continues to be viewed by customers and stakeholders as a competent, professional and technically superior organization that serves as a trusted advisor and operator. The company is considered a leader in the electricity sector. Some 81 per cent of respondents agreed the IESO's stakeholder engagement processes are effective in facilitating stakeholder input. Similarly, the annual Customer Satisfaction Survey revealed the IESO had achieved an average rating of 7.9 out of 10 for those questions pertaining to the value of products and services provided to market participants.

In the area of process assurance, the IESO achieved superior performance levels in 2009. To ensure Ontario's electricity system and market are being managed efficiently, the IESO commissions an independent review of the operation and application of the dispatch algorithm and related dispatch processes and procedures at least once every two years. After rigorous analysis and testing of documentation, procedures and management practices, the reviewers found the IESO compliant with all associated Market Rules.

The IESO is equally committed to establishing and maintaining effective controls over its settlement processes. The organization recognizes the importance of having robust controls, processes, and procedures to ensure the accurate, complete, and timely delivery of settlement statements and invoices to market participants and to ensure the confidentiality of market participant information. A biennial audit conducted by external auditors in 2009 found the internal controls established for the IESO's settlement operations are suitably designed and operating effectively.

Effective Use of Funds

The IESO has always demonstrated sound financial management practices, resulting in lower operating costs in each of the last six years. The IESO continued to demonstrate financial prudence in 2009 by managing costs to 6.8 per cent below approved targets while simultaneously maintaining the high level of service that customers and stakeholders expect. At the same time, the IESO introduced a new organizational structure that better positions the company to deliver on its core responsibilities in the changing electricity sector. In particular, this new structure will help the IESO respond to the demands associated with the implementation of the *Green Energy and Green Economy Act, 2009*. As part of the IESO's most recent rate application, the IESO committed to no increase in its fees for 2010.

People

Considerable progress was made in 2009 with respect to the development of a sustainable and engaged workforce. The IESO made a strategic commitment to reduce the environmental impacts of its operations and, in 2009, applied for silver-level certification of the system control centre under the Leadership in Energy and Environmental Design (LEED) program. Some of the many initiatives undertaken by the IESO included completion of an energy audit; introduction of a recycling and composting program; conversion from chemical fertilizers to organic alternatives; installation of occupant-controlled lighting; installation of low-flow aerators and low-flush fixtures; and installation of a weather station for lawn irrigation.

Like many of its counterparts in North America, the IESO is facing a number of challenges brought on, in part, by an aging workforce compounded by fierce competition for skilled employees. While the company has always been focused on recruiting, retention, development and succession planning, the Talent Management Framework introduced in 2008 brought a new rigour and focus to the process. Building on this approach, employee development remains a priority at the IESO and, in 2009, the majority of employees created personal learning and development plans. These plans will help ensure employees have the necessary learning products and activities to meet personal and organizational learning objectives, as well as the skills and capabilities to help the IESO uphold its statutory responsibilities in years to come.

Management Report

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Independent Electricity System 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 System Operator are described in the Summary of Significant Accounting Policies contained in Note 2 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 February 11, 2010.

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 SYSTEM OPERATOR

On behalf of management,

Paul Murphy
President and Chief Executive Officer
Toronto, Canada
March 8, 2010

Ted Leonard
Vice President, Finance
Chief Financial Officer and Treasurer
Toronto, Canada
March 8, 2010

Auditors' Report

February 11, 2010

To the Board of Directors of the Independent Electricity System Operator (IESO):

We have audited the statement of financial position of the IESO as at December 31, 2009 and the statement of operations, comprehensive loss and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the IESO'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 accounting 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 IESO as at December 31, 2009 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, Licensed Public Accountants
Toronto, Ontario

Statement of Operations, Comprehensive Loss and Accumulated Deficit

For the year ended December 31 (in thousands of Canadian dollars)	2009	2008
	$	$
REVENUES		
System fees (Note 11)	119,988	132,477
Other revenue (Note 2b)	1,511	1,906
TOTAL REVENUES	**121,499**	**134,383**
EXPENSES		
Labour	74,036	76,270
Computer services, support and equipment	9,275	8,988
Contract services and consultants	6,860	7,500
Telecommunications	2,936	2,944
Other costs	7,255	6,350
Smart metering program costs (Note 11)	9,962	7,763
Amortization	24,319	23,360
TOTAL EXPENSES	**134,643**	**133,175**
Income/(loss) before interest, financial charges and investment income	**(13,144)**	**1,208**
Interest and investment income/(loss)	2,304	(2,321)
Interest expense and financing charges	(3,074)	(5,945)
NET LOSS FOR THE YEAR	**(13,914)**	**(7,058)**
OTHER COMPREHENSIVE INCOME	**-**	**29**
COMPREHENSIVE LOSS	**(13,914)**	**(7,029)**
ACCUMULATED SURPLUS (before change in accounting policy)	-	3,014
Change in accounting policy (Note 3)	-	(1,596)
ACCUMULATED SURPLUS/(DEFICIT) - BEGINNING OF YEAR	(5,611)	1,418
ACCUMULATED DEFICIT - END OF YEAR (Note 11)	**(19,525)**	**(5,611)**

See accompanying notes to Financial Statements.

Statement of Financial Position

As at December 31 (in thousands of Canadian dollars)	2009	2008
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	8,990	12,691
Accounts receivable	13,500	13,775
Prepaid expenses	3,693	3,958
	26,183	**30,424**
Property and equipment (Note 4)		
In service	74,856	91,581
Construction-in-progress	4,882	1,781
	79,738	**93,362**
Other assets		
Intangible assets (Note 5)	6,685	6,774
Long-term investments (Note 6)	18,204	14,972
Prepaid pension cost (Note 7)	3,349	-
	28,238	**21,746**
TOTAL ASSETS	**134,159**	**145,532**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	20,073	22,172
Accrued interest on debt	66	1,030
Short-term debt (Note 9)	-	78,200
Rebates to market participants (Note 11)	4,324	1,386
	24,463	**102,788**
Long-term liabilities		
Long-term debt (Note 9)	78,200	-
Accrued pension liability (Note 7)	-	1,839
Accrual for employee future benefits other than pensions (Note 7)	51,021	46,516
	129,221	**48,355**
TOTAL LIABILITIES	**153,684**	**151,143**
ACCUMULATED DEFICIT (Note 11)	(19,525)	(5,611)
TOTAL LIABILITIES AND ACCUMULATED DEFICIT	**134,159**	**145,532**

Commitments and contingencies (Note 13).

See accompanying notes to financial statements.

On behalf of the Board:

James Hinds
Chair
Toronto, Canada

William Museler
Director
Toronto, Canada

Statement of Cash Flows

For the year ended December 31 (in thousands of Canadian dollars)	2009	2008
	$	$
OPERATING ACTIVITIES		
Net loss for the year	(13,914)	(7,058)
Adjustments for non-cash items:		
Amortization	24,319	23,360
Pension cost	12,524	13,456
Other employee future benefits cost	6,240	6,252
Change in fair value of long-term investments held for trading	(1,218)	3,127
	27,951	39,137
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(1,760)	(636)
Change in rebates to market participants	2,938	1,386
Change in accounts receivable	275	55
Change in prepaid expenses	265	(831)
	1,718	(26)
Other:		
Contribution to pension fund	(17,712)	(8,646)
Payment of employee future benefits	(1,735)	(1,673)
	(19,447)	(10,319)
Cash provided by operating activities	**10,222**	**28,792**
INVESTING ACTIVITIES		
Net purchase of long-term investments	(2,014)	(1,381)
Investment in property and equipment	(8,975)	(13,645)
Investment in intangible assets	(2,934)	(2,304)
Cash used in investing activities	**(13,923)**	**(17,330)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,701)	11,462
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	12,691	1,229
CASH AND CASH EQUIVALENTS - END OF YEAR	**8,990**	**12,691**

See accompanying notes to financial statements.

Supplementary information:

(in thousands of Canadian dollars)

Interest paid	**3,279**	**6,224**

Notes to Financial Statements

1. NATURE OF OPERATIONS

Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation, created by statute effective on April 1, 1999 pursuant to Part II of the *Electricity Act, 1998*. As set out in the *Electricity Act, 1998*, the IESO operates pursuant to a licence granted by the Ontario Energy Board (OEB). The objects of the IESO as contained in the *Electricity Act, 1998* and amended, in the *Electricity Restructuring Act, 2004* and Ontario Regulation 452/06, are as follows:

- to exercise the powers and perform the duties assigned to the IESO under the *Electricity Restructuring Act, 2004*, the market rules and its licence;
- to enter into agreements with transmitters giving the IESO the authority to direct the operation of their transmission systems;
- to direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of the *Electricity Restructuring Act, 2004*;
- 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 IESO's activities with their activities;
- to collect and provide information to the Ontario Power Authority (OPA) and the public relating to the current and short-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs;
- to operate the IESO-administered markets to promote the purposes of the *Electricity Restructuring Act, 2004*;
- to plan, manage and implement the smart metering initiative or any aspect of the initiative;
- to oversee, administer and deliver the smart metering initiative or any aspect of the initiative; and
- to establish and enforce standards and criteria relating to the reliability of transmission systems.

The IESO was designated the Smart Metering Entity by Ontario Regulation 393/07 under the *Electricity Act, 1998* on March 28, 2007. The regulation came into effect on July 26, 2007.

The objects of the Smart Metering Entity, as contained in the *Electricity Act, 1998*, are as follows:

- to plan and implement and, on an ongoing basis, oversee, administer and deliver any part of the smart metering initiative as required by regulation under this or any Act or directive made pursuant to sections 28.3 or 28.4 of the *Ontario Energy Board Act, 1998*, and, if so authorized, to have the exclusive authority to conduct these activities;
- to collect and manage and to facilitate the collection and management of information and data and to store the information and data related to the metering of consumers' consumption or use of electricity in Ontario, including data collected from distributors and, if so authorized, to have the exclusive authority to collect, manage and store the data;
- to establish, to own or lease and to operate one or more databases to facilitate collecting, managing, storing and retrieving smart metering data;

- to provide and promote non-discriminatory access, on appropriate terms and subject to any conditions in its licence relating to the protection of privacy, by distributors, retailers, the OPA and other persons,

    i. to the information and data referred to above, and
    ii. to the telecommunication system that permits the Smart Metering Entity to transfer data about the consumption or use of electricity to and from its databases, including access to its telecommunication equipment, systems and technology and associated equipment, systems and technologies

- to own or to lease and to operate equipment, systems and technology, including telecommunication equipment, systems and technology that permit the Smart Metering Entity to transfer data about the consumption or use of electricity to and from its databases, including owning, leasing or operating such equipment, systems and technology and associated equipment, systems and technologies, directly or indirectly, including through one or more subsidiaries, if the Smart Metering Entity is a corporation;
- to engage in such competitive procurement activities as are necessary to fulfill its objects or business activities;
- to procure, as and when necessary, meters, metering equipment, systems and technology and any associated equipment, systems and technologies on behalf of distributors, as an agent or otherwise, directly or indirectly, including through one or more subsidiaries, if the Smart Metering Entity is a corporation;
- to recover, through just and reasonable rates, the costs and an appropriate return approved by the Ontario Energy Board associated with the conduct of its activities; and
- to undertake any other objects that are prescribed by associated regulation.

The IESO is required to submit its proposed expenditures, revenue requirements, and fees for the coming year to the OEB for review. The submission may be made only with the approval or deemed approval of the Minister of Energy and Infrastructure (Minister).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of financial statement preparation

The accompanying financial statements have been prepared on a going concern basis and in accordance with accounting principles generally accepted in Canada.

b) Revenue recognition

System fees earned by the IESO are based on approved rates for each megawatt of electricity withdrawn from the IESO-controlled grid, including exports. System fees are recognized as revenue at the time the electricity is withdrawn. Rebates are recognized in the year in which the approved regulatory deferral account, before such rebates, exceeds regulated limits.

These financial statements do not include the financial transactions of market participants within the IESO-administered markets.

Other revenue represents amounts that accrue to the IESO relating to services the IESO performs and charges on a recovery basis, investment income on funds passing through market settlement accounts, as well as fines and penalties. Such revenue is recognized as it accrues.

c) Financial instruments

Classification

- The IESO designated its investment portfolio as being "held for trading" and classified its cash and accounts receivable as "loans and receivables".
- Cash and cash equivalents comprise cash, term deposits and other short-term, highly-rated investments with original maturity dates of less than 90 days.
- Accounts payable and debt have been classified as other financial liabilities.

Recognition and measurement

- Held for trading investments are recorded at fair value with gains and losses recorded in the statement of operations. Transactions are recorded based on trade dates. Transaction costs are charged to operations as incurred.
- Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.
- The IESO's financial liabilities, comprising accounts payable and long-term debt are carried at amortized cost.
- Foreign currency exchange forward contracts are recorded at fair value. Where foreign currency exchange forward contracts meet the criteria for hedge accounting, changes in their values are reflected in accumulated surplus as other comprehensive income. Where such contracts do not meet the criteria for hedge accounting, changes in their value are recognized in the statement of operations.

d) Construction-in-progress

Construction-in-progress generally relates to the costs of physical facilities, hardware and software, and includes costs paid to vendors, internal and external labour, consultants and interest related to funds borrowed to finance the project. Costs relating to construction-in-progress are transferred to property and equipment in service or intangibles when the asset under construction is deemed to be ready for use.

e) Property and equipment in service

Property and equipment are capitalized at cost, which comprises materials, labour, external support, overhead, and interest applicable to capital activities.

f) Amortization

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

The estimated service lives in years, from the date the assets were acquired, are:

Class	Estimated Average Service Life
Facilities	38
Meter Data Management/Repository	6
Market Systems and Applications	5 to 9
Infrastructure and Other Assets	4 to 7
Intangible Assets	4

Gains and losses on sales of property and equipment are charged to operations. Losses on premature retirements for property and equipment and intangible assets are charged to operations.

The estimated service lives of property and equipment and intangible assets are subject to periodic review. The impacts of changes in the estimated lives are amortized on a prospective basis. The most recent review was completed in fiscal 2009.

g) Intangible assets

Intangible assets are capitalized at cost, which comprises materials, labour, external support, overhead, and interest applicable to capital activities.

h) Pension and other post-employment benefits

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

The IESO accrues obligations under pension and other post-employment benefit (OPEB) plans and the related costs, net of plan assets. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimate of expected return on plan assets, salary escalation, retirement ages of employees, mortality and expected health-care costs. The discount rate used to value liabilities is based on market rates as at the measurement date of September 30.

The expected return on plan assets is based on management's long-term best estimate using a market-related value of plan assets. The market-related value of plan assets is determined using market-related values for equities (whereby fund assets are calculated using the smoothed value of assets over five years) and market values for fixed income securities, as at the measurement date of September 30.

Pension and OPEB expenses are recorded during the year in which employees render services. Pension and OPEB expenses consist of current service costs, interest expense on liabilities, expected return on plan assets and the amortization of plan amendments on a straight-line basis over the expected average remaining service life of the employees covered by the plan. Actuarial gains/(losses) arise from, among other things, the difference between the actual rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess, if any, of the cumulative unamortized net actuarial gain or loss over 10% of the greater of the projected benefit obligation and the market-related value of plan assets is also amortized over the expected average remaining service life of the employees covered by the plan.

The expected average remaining service life of employees covered by the pension and OPEB plans is 11 years (2008 - 11 years).

i) Deferred costs

Deferred costs represent start-up costs incurred by the IESO during 2006 for the smart metering initiative ($1,595,605). In 2009, the IESO adopted CICA Handbook Section 3064, Goodwill and Intangible Assets which requires these start-up costs to be written off (Note 3).

j) Foreign currency 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 statements 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.

l) Comparative figures

Certain 2008 comparative figures have been reclassified to conform to the 2009 financial statement presentation.

3. CHANGE IN ACCOUNTING POLICIES

The IESO retrospectively adopted Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3064, Goodwill and Intangible Assets in 2009. Upon adoption of the new accounting standard, the IESO reclassified computer applications software previously classified as property and equipment to intangible assets and expensed start up costs incurred in 2006 previously classified as deferred costs ($1,595,605). The new standard requires the IESO to provide new disclosures which are included in Note 5.

The IESO adopted EIC 173 and revisions to CICA Handbook Section 3862. No material changes to the financial statements resulted from these adoptions.

4. PROPERTY AND EQUIPMENT

As at December 31 (in thousands of Canadian dollars)	2009			2008		
	Costs	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
	$	$	$	$	$	$
Property and equipment in service						
Facilities	50,087	13,769	36,318	49,782	12,279	37,503
Meter Data Management/ Repository	18,208	5,638	12,570	16,650	2,557	14,093
Market systems and applications	207,861	189,620	18,241	206,771	178,029	28,742
Infrastructure and other assets	75,178	67,451	7,727	73,550	62,307	11,243
	351,334	276,478	74,856	346,753	255,172	91,581
Construction-in-progress	4,882	-	4,882	1,781	-	1,781
	356,216	276,478	79,738	348,534	255,172	93,362

In 2009, the impact of adjustments to management's estimates of remaining asset service lives was a decrease in amortization expense of $390,533 (2008 - $6,224,713).

Interest capitalized to construction-in-progress during 2009 was $34,574.

5. INTANGIBLE ASSETS

As a result of adopting the new accounting standard Section 3064, Goodwill and Intangible Assets, in 2009 (Note 3), the IESO reclassified $34,205,333 in computer applications software previously classified as property and equipment to intangible assets.

As at December 31 (in thousands of Canadian dollars)	2009			2008		
	Costs	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
	$	$	$	$	$	$
Intangible assets	34,205	29,620	4,585	33,048	26,620	6,428
Construction-in-progress	2,100	-	2,100	346	-	346
	36,305	29,620	6,685	33,394	26,620	6,774

In 2009, the impact of adjustments to management's estimates of remaining asset service lives was a decrease in amortization expense of $13,043 (2008 - $219,423).

6. LONG-TERM INVESTMENTS

Long-term investments in a balanced portfolio of pooled funds are valued by the pooled funds manager based on published price quotations and amount to $17,930,573 (2008 – $14,501,928). As at December 31, the market value allocation of these long-term investments was 60.9% equity securities and 39.1% debt securities (2008 – 56.6% and 43.4%respectively).

Balanced portfolio of pooled funds
As at December 31

(in thousands of Canadian dollars)	2009	2008
	$	$
Opening balance	14,502	16,052
Purchase of investments	2,014	1,381
Change in fair value	1,415	(2,931)
Closing balance	**17,931**	**14,502**

Long-term investments in non-bank sponsored ABCP are carried at an estimated fair value of $273,513 (2008 - $469,840). Fair value is determined based on estimated discounted cash flows.

In its administration of the IESO-Administered Markets, the IESO directs the investment of market funds in highly-rated short-term investments, including previous investments in asset-backed commercial paper (ABCP), throughout the settlement cycle. The IESO is entitled to receive the investment interest and investment gains, net of investment losses earned on funds passing through the real-time market settlement accounts. The IESO is not entitled to the principal on real-time market investments.

The IESO is not obligated to reimburse the market accounts in respect of investment losses incurred on the investments. As a result of investment losses on existing ABCP investments purchased in 2007, the accumulated net investment income since 2007 has been negative. Accordingly, the IESO has not recognized as other revenue any investment income earned in the market settlement accounts in 2007, 2008 or 2009.

7. POST-EMPLOYMENT BENEFIT PLANS

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

Pension plans

The IESO provides a contributory defined benefit, indexed, registered pension plan. In addition to the funded, registered, pension plan, the IESO provides certain non-registered defined benefit pensions through an unfunded, indexed, 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

(in thousands of Canadian dollars)	2009 Pension Benefits	2008 Pension Benefits	2009 Other Benefits	2008 Other Benefits
	$	$	$	$
Accrued benefit obligation	396,936	367,356	67,630	60,037
Fair value of plan assets	269,791	264,870	-	-
Funded status	(127,145)	(102,486)	(67,630)	(60,037)
Employer contribution after measurement date	2,264	2,154	467	449
Unamortized past service costs	2,323	3,021	172	(8)
Unamortized net actuarial loss	125,907	95,472	15,970	13,080
Prepaid/(accrued) benefit cost recognized in the statement of financial position	3,349	(1,839)	(51,021)	(46,516)

Prepaid benefit cost in 2009 is shown net of a valuation allowance of $nil.

Registered pension plan assets

As at the measurement date of September 30, registered pension plan assets were split by fair value between the following categories:

	2009	2008
Canadian equity securities	21.0%	21.0%
Foreign equity securities	39.8%	33.0%
Canadian debt securities	37.5%	45.5%
Cash equivalents	0.7%	0.5%
Forward foreign exchange contracts	1.0%	0.0%
	100.0%	100.0%

Summary of principal assumptions used to calculate benefit obligations

	2009 Pension Benefits	2008 Pension Benefits	2009 Other Benefits	2008 Other Benefits
Discount rate at end of the period	5.8%	6.1%	5.8%	6.1%
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

The assumed hospital and drug cost increase is 9.0% per annum initially. The rate is assumed to begin decreasing gradually commencing on October 1, 2010 to a rate of 5.0% in 2018 and remain at that level thereafter. Dental costs are assumed to increase by 6.0% per annum initially and to begin decreasing commencing on October 1, 2010 to a rate of 4.5% in 2013 and remain at that level thereafter.

Summary of benefit costs and plan contributions

(in thousands of Canadian dollars)	2009 Pension Benefits	2008 Pension Benefits	2009 Other Benefits	2008 Other Benefits
	$	$	$	$
Benefit cost	12,524	13,456	6,240	6,252
Employer contributions	17,603	8,448	1,717	1,575
Plan participants' contributions	2,749	2,579	-	-
Benefits paid	21,458	16,736	1,717	1,575

The most recent actuarial valuation of the registered pension plan for funding purposes was at January 1, 2008, and the date of the next required valuation is January 1, 2011.

Summary of principal assumptions used to calculate benefit costs

	2009 Pension Benefits	2008 Pension Benefits	2009 Other Benefits	2008 Other Benefits
Discount rate at the beginning of the period	6.1%	5.4%	6.1%	5.4%
Expected return on plan assets	6.75%	7.0%	-	-
Rate of compensation increase	4.0%	3.5%	4.0%	3.5%
Rate of indexing of pension benefits	2.5%	2.5%	-	-

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31 (in thousands of Canadian dollars)	2009	2008
	$	$
Relating to property and equipment	2,994	4,274
Relating to intangibles	242	265
Relating to operations	16,837	17,633
	20,073	**22,172**

9. DEBT

Note payable to OEFC

The note payable to Ontario Electricity Financial Corporation (OEFC) due May 1, 2009 was repaid on May 1, 2009.

In April 2009, the IESO executed a new note payable with OEFC in the amount of $78.2 million. The note payable to OEFC is unsecured, bears interest at a per annum rate equal to the yield earned on 90 day Province of Ontario treasury bills on the quarterly reset date plus 25 basis points and is repayable in full on May 1, 2011. Interest accrues daily and is payable in arrears quarterly in February, May, August and November of each year. The fair value of the note payable approximates the carrying value.

Credit facility

On April 30, 2009, the existing credit facility with a Canadian chartered bank expired and the IESO entered into a revised agreement with the same Canadian chartered bank. Under the terms of the new unsecured credit facility, the bank will make available to the IESO an amount up to $60 million. The credit facility expires on April 30, 2010. Advances under this facility are available in Canadian dollars by way of prime rate loan plus 75 basis points or the issuance of Bankers' Acceptances at market rates plus a stamping fee of 175 basis points per annum. Unused portions of this credit facility are subject to a commitment fee of 45 basis points per annum. As at December 31, 2009, $nil was drawn on the credit facility.

10. CAPITAL DISCLOSURES

The IESO's primary objectives are to maintain and enhance the reliability of Ontario's power system, administer the wholesale electricity market, and serve the needs of our participants and stakeholders. In order to fulfill its mandate, the IESO receives fees from market participants (Note 1). The IESO has a limited ability to accumulate a surplus from these fees (Note 11).

On March 31, 2009, the Ontario Energy Board (OEB) issued its order approving the IESO's application fee of $1,000, the usage fee of $0.822/MWh and the IESO's revenue requirements in the amount of $130.3 million and capital expenditures in the amount of $22.9 million.

The IESO submitted the proposed 2010 expenditures, revenue requirements, and fees to the OEB for review on November 2, 2009 after deemed approval by the Minister. The Minister provided formal approval of IESO's proposed expenditures, revenue requirements and fees on November 16, 2009. To date, the OEB has not approved the IESO's proposed usage fee for 2010.

In addition, the IESO maintains a credit facility for short-term funding to support its various capital requirements. The IESO has customary covenants associated with the credit facility and is in compliance with all of these covenants.

11. ACCUMULATED DEFICIT AND REBATES TO MARKET PARTICIPANTS

In 2009, the IESO recognized $4,323,840 in rebates to market participants of system fees (2008 – $1,386,144), due to a net operating surplus in the year. The IESO's approved regulatory deferral account balance is maintained at a maximum of $5 million. As at December 31, the components of the accumulated defict were as follows:

Accumulated deficit
As at December 31

(in thousands of Canadian dollars)	2009	2008
	$	$
Approved regulatory deferral account (a)	5,000	5,000
Accumulated market penalties and fines (b)	1,372	1,832
Smart metering entity - accumulated deficit(c)	(25,897)	(12,443)
	(19,525)	**(5,611)**

a) Approved regulatory deferral account
As at December 31

(in thousands of Canadian dollars)	2009	2008
	$	$
Accumulated surplus - beginning of year	5,000	691
Revenues (before rebates to market participants)	125,770	135,692
Rebates to market participants	(4,324)	(1,386)
Expenses	(99,849)	(101,331)
Amortization	(21,239)	(20,803)
Net interest	(358)	(7,863)
Accumulated surplus - end of year	**5,000**	**5,000**

b) Accumulated market penalties and fines
As at December 31

(in thousands of Canadian dollars)	2009	2008
	$	$
Accumulated surplus - beginning of year	1,832	2,476
Revenue from penalties and fines	53	77
Customer education expenses	(513)	(721)
Accumulated surplus - end of year	**1,372**	**1,832**

c) Smart metering entity - accumulated deficit

As at December 31

(in thousands of Canadian dollars)	2009	2008
	$	$
Opening accumulated deficit (before change in accounting policy)	-	(124)
Change in accounting policy	-	(1,596)
Accumulated deficit - beginning of year	(12,443)	(1,720)
Smart metering program costs	(9,962)	(7,763)
Smart metering amortization	(3,080)	(2,557)
Smart metering interest expense	(412)	(403)
Accumulated deficit - end of year	**(25,897)**	**(12,443)**

In his approval letter to proceed to the OEB for approval of the 2009 usage fee, the Minister noted the intention of the IESO to apply to the OEB separately for a smart meter service fee with respect to the costs the IESO has incurred on the smart metering initiative. At that time, the Minister requested, prior to the IESO filing an application to the OEB in respect of a smart meter service fee, the IESO provide him with a detailed implementation plan, and schedule for the integration of the local distribution companies, to enable a broader transition to time-of-use pricing for electricity consumers. The IESO has since provided a plan to the Minister and received approval to proceed with an application before the OEB. The permanent licence and fee applications to the OEB are in the course of preparation. It is the IESO's intent, consistent with the *Electricity Act, 1998* to recover all costs, including capital costs and/or accumulated deficits associated with the smart meter entity through a smart meter service fee once approved.

The IESO's smart meter service fees as of December 31, 2009 have not yet been established.

12. FINANCIAL RISK MANAGEMENT

The IESO is exposed to financial risks in the normal course of its business operations, including market risks resulting from volatilities in equity, debt, and foreign currency exchange markets, as well as credit risk and liquidity risk. The nature of the financial risks and the IESO's strategy for managing these risks has not changed significantly from the prior year.

a) Market Risk

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate to cause changes in market prices. The IESO is exposed to three types of market risk: currency risk, interest rate risk and equity risk. The IESO monitors its exposure to market risk fluctuations and may use financial instruments to manage these risks as it considers appropriate. The IESO does not use derivative instruments for trading or speculative purposes.

i) Currency Risk

The IESO conducts certain transactions in US dollars, primarily related to vendor payments, and maintains a US dollar denominated bank account. From time to time, the IESO uses currency forward purchase contracts to purchase foreign currencies for delivery at a specified date in the future at a fixed exchange rate. In addition, the IESO invests in pooled funds with US dollar and other foreign currency denominated investments. The reasonably possible currency risks associated with these exposures were not material as at December 31, 2009.

ii) Interest Rate Risk

The IESO is exposed to changes in interest rates primarily through its variable rate credit facility, cash equivalents, and long-term investments. Long-term investments include investments in a pooled Canadian bond fund. The reasonably possible interest rate risks associated with these exposures were not material as at December 31, 2009.

iii) Equity Risk

The IESO is exposed to changes in equity prices through its long-term investments. Long-term investments include investments in pooled equity funds. A 30% change in the value of equities in the IESO's pooled fund investments as at December 31, 2009 would have resulted in a change for the year (before the impact of adjustments to the approved regulatory deferral account (Note 11)) of approximately $3.3 million (2008 - $2.5 million).

Financial instruments at fair value

As at December 31 (in thousands of Canadian dollars)	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and cash equivalents	8,990	-	-	8,990
Investment in pooled funds	17,931	-	-	17,931
non-bank ABCP	-	-	273	273
	26,921	**-**	**273**	**27,194**

b) Credit Risk

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The IESO is exposed directly to credit risk related to cash equivalents and accounts receivable and indirectly through its exposure to bond investments in pooled funds. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. The IESO manages credit risk associated with cash equivalents (which amounted to $9 million as at December 31, 2009) through approved management policy which limits investments to investment grade investments with counterparty-specific limits of no more than $20 million. Accounts receivable as at December 31, 2009 included no material items past due and substantially all of the balance was collected as at January 21, 2010. As at December 31, 2009, the Canadian bond fund in which the IESO invests comprised of investment grade securities rated BBB(low), or better.

c) Liquidity Risk

Liquidity risk refers to the risk that the IESO will encounter financial difficulty in meeting obligations associated with its financial liabilities. The IESO manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and investment income and maintaining appropriate credit facilities reduce liquidity risk. The IESO's long-term investments in pooled funds are normally able to be redeemed within three business days however, the manager of the pooled funds has the authority to require a redemption in-kind rather than cash and has the ability to suspend redemptions if deemed necessary.

13. COMMITMENTS AND CONTINGENCIES

Operating commitments

The obligations of the IESO with respect to non-cancellable operating leases over the next three years are as follows:

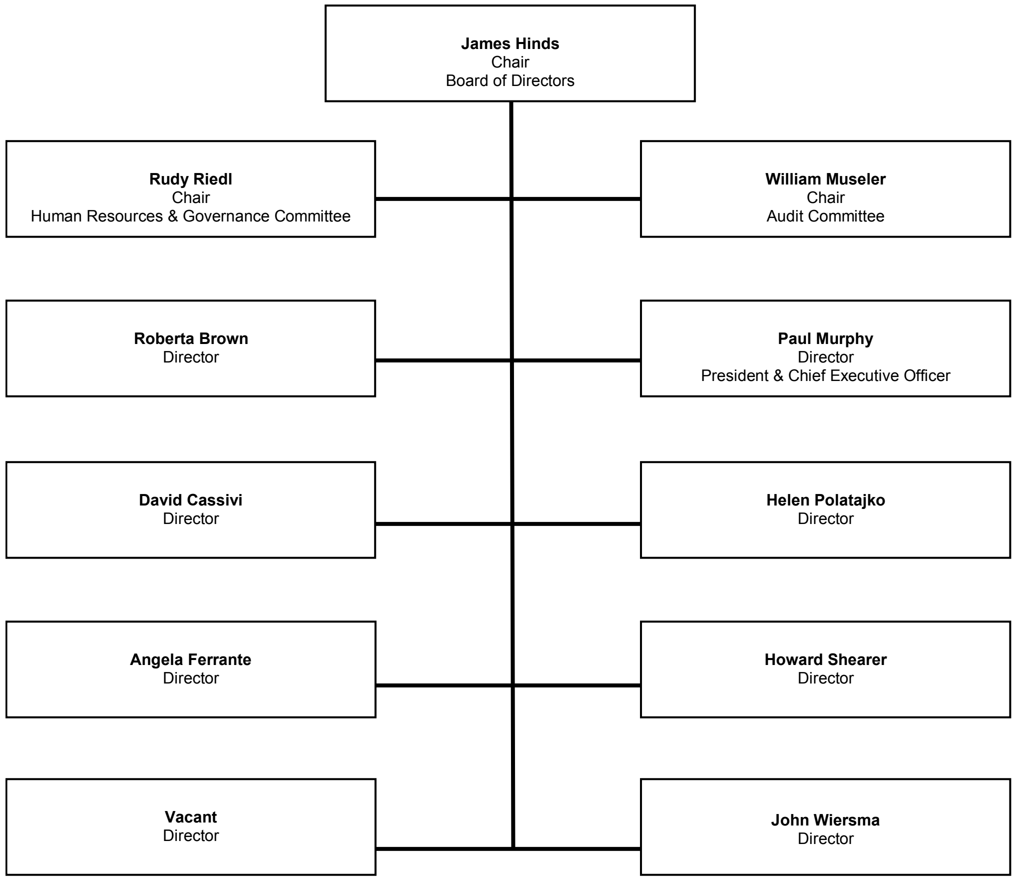
As at December 31 (in thousands of Canadian dollars)	2009
	$
2010	2,146
2011	1,590
2012	66

Contingencies

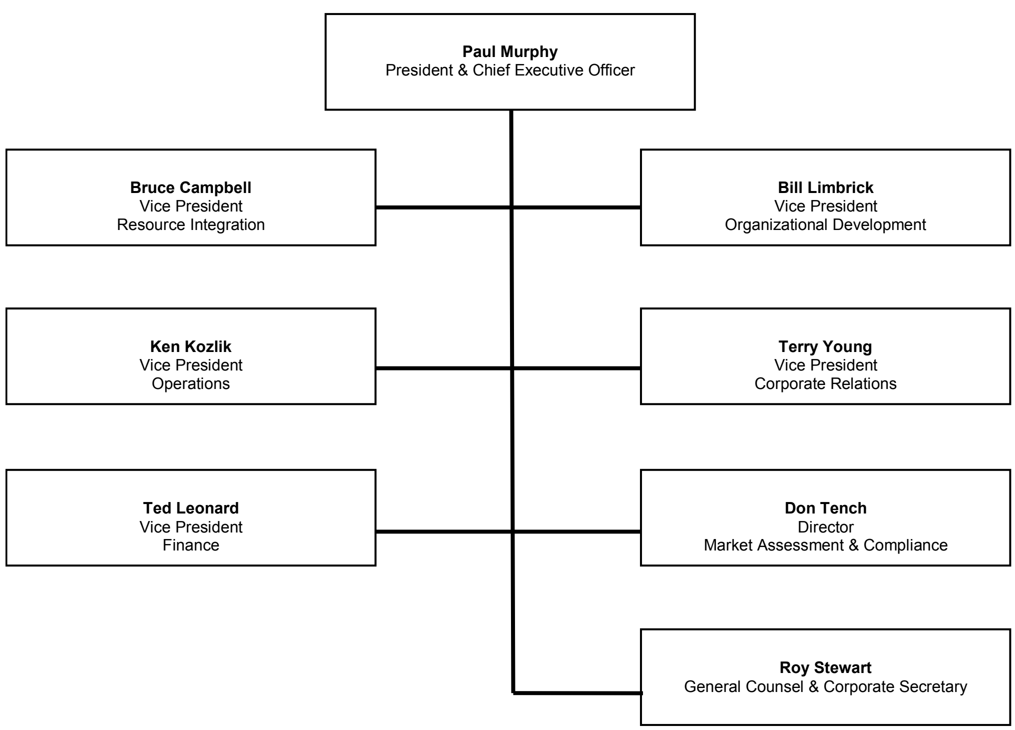
The IESO is subject to various claims, legal actions, and investigations that arise in the normal course of business. While the final outcome of such matters cannot be predicted with certainty, management believes that the resolution of such claims, actions and investigations will not have a material impact on the IESO's financial position or results of operations.

Appendix A - IESO Organizational Charts

Board of Directors



Senior Management Team



Appendix B - Executive Compensation

Program Objectives

The IESO compensation program is an integrated program for all management group staff, designed to attract, retain and motivate the calibre of executives required to support the achievement of our statutory mandate, business objectives and corporate vision. Accordingly, the compensation philosophy and programs have been built on the following objectives:

- To focus executives on meeting the IESO's business objectives
- To attract qualified and talented staff needed to carry out the IESO's mandate
- To be able to retain valued staff
- To have the flexibility to reward results and demonstrated competencies
- To have compensation levels which are responsible and defensible to stakeholders and customers

The philosophy underlying these objectives is that total compensation for senior management should be sufficient, but not overly sufficient, to attract and retain the skills and competencies necessary to carry out the IESO's mandate.

Program Governance

The IESO Board of Directors (the Board) establishes the compensation objectives for these programs. They delegate the responsibility to thoroughly review the compensation objectives, policies and programs to the Human Resources and Governance Committee of the Board (HRGC) which makes recommendations concerning such to the full Board for approval. The Board is composed of ten independent, external Directors, appointed by the Minister of Energy & Infrastructure, with broad experience in both industry and public sector organizations, plus the Chief Executive Officer. In carrying out their mandate the Board members have access to Management's perspectives as well as those of expert consultants in the compensation field (including experts at various times from Towers Watson, Mercer and Hay). These programs are reviewed at least annually including business needs, program objectives and design, industry compensation trends, internal compensation relativities, and external market relativities.

In addition to the formal governance and oversight structure in place for compensation matters, the IESO annually discloses compensation levels for staff earning $100,000 or more as part of the public sector salary disclosure. For the IESO, a further level of public review and assurance is provided through a statutory required annual fee review. Compensation matters, including management compensation and market relativities, are addressed during the Ontario Energy Board review. A broad range of small and large consumers, assisted by their legal and professional advisors, are represented in these public proceedings. The IESO is also responsive to various requests by the Ministry of Energy & Infrastructure in relation to compensation enquiries such as the Agency Review Panel (ARP) in 2007 which conducted an exhaustive review of senior management compensation for the various agencies in the Ontario electricity sector.

Market Comparisons

The IESO regularly benchmarks compensation to similar positions in Canadian industry. The comparator employers are segmented into government and non-government categories. Market compensation data is gathered for each segment. A 50/50 weighting is applied to each of the government and non-government market results to reflect an overall comparator market for executive compensation at the IESO. When comparing the compensation of the IESO executives to this overall market, care is taken to assess positions of similar size, scope and complexity.

The comparator employers include fifteen mid-size to smaller Canadian energy sector companies – seven government and eight non-government. The list of comparators is outlined below:

Government Comparators	Non-Government Comparators
• Alberta Electric System Operator	• Alliance Pipeline Ltd.
• Atomic Energy of Canada Limited	• ATCO Ltd. & Canadian Utilities Limited*
• Enmax Corporation	• Bruce Power
• EPCOR*	• Emera Inc.
• New Brunswick Power Corporation	• FortisAlberta
• Newfoundland & Labrador Hydro Electric Corporation	• Kinder Morgan Canada Inc. (Pipelines)
• Saskatchewan Power Corporation	• Spectra Energy Transmission*
	• TransAlta Corporation*

**For these larger organizations a full level downward adjustment has been made for compensation comparison purposes (e.g. the IESO CEO level is compared to the SVP/EVP level for the external firm).*

While market data is gathered for various components of compensation, emphasis is placed on total rewards including the sum of fixed and variable compensation, benefits and pension. Thus, total rewards for IESO executives are benchmarked to the 50th percentile or midpoint of total rewards reported in the market data.

This approach includes gathering market data on executive compensation, segmenting and weighting government and non-government market data, and focusing on comparisons at the total rewards level. The IESO undertook such a benchmarking study in 2008. The results indicated that the IESO's total rewards for the Management Group overall were at the median of this market. In addition to the comparisons outlined above, the IESO Board also reviews available compensation data for other North American Independent System Operators to determine if broader North American trends should be considered.

Program Description - Roles

The IESO's program includes fixed and variable compensation, core and flex benefit plans, and pension provisions. IESO Human Resources staff participates in and reviews results from various compensation surveys and monitors economic trends such as compensation trends, inflation and unemployment rates which impact on compensation, as well as monitoring internal compensation relativities. Based on this data and the IESO business priorities, Human Resources staff develops recommendations on compensation programs for all Management staff. External specialized compensation, benefit and pension consultants are utilized to ensure accurate, representative market compensation data is obtained, that current industry compensation trends are being utilized, as well as to provide insight and recommended adjustments to current programs. An expert, external consultant also reviews the recommendations as to the reasonableness and appropriateness of Management's recommendations. Senior Management reviews the recommendations and provides advice to the CEO who determines whether the recommendations should be advanced to the HRGC and the IESO Board. The Chair of the HRGC reviews the recommendations and supporting data prior to submission to the HRGC, along with the input from an expert, external consultant. The Chair determines if additional external expertise is required. The analysis and conclusions from these external experts are provided to the HRGC members for their consideration. The HRGC reviews in detail the recommendations, the supporting data and advice from the expert, external consultant(s) and decides on the recommendations to go to the full Board. The Board reviews the submissions and makes a final determination on the recommendations.

In 2009 the HRGC decided that an external consultant with management compensation expertise should be retained by the IESO Board to provide a review of the IESO's Management Compensation Program. The analysis and conclusions from the selected external expert were provided to the HRGC members for their consideration. As a result some limitations were placed on the flex benefit plan and on the scope of the variable compensation program. In addition the IESO Board approved an in depth review of the program design and benchmarks be undertaken in 2010 for implementation in 2011.

Program Description - Fixed Compensation

The Board establishes broad salary ranges for each level of executive taking into account comparable market relativities. Within these bands individuals are assessed as developmental, mature or expert in their position relative to an established competency model. This model consists of behavioural competencies, such as customer focus, drive for results, teamwork, leadership, and strategic business sense. The assessment is based upon demonstrated competency. Each individual is then awarded a fixed compensation level within their band.

Unfavourable economic conditions were at play in 2008 and 2009 as a result of significant downturns in the major global economies. The Government of Ontario responded to these conditions by calling for compensation restraint within the public sector. The IESO applied the spirit of the government's guidelines by limiting 2009 salary increases for management staff earning $150,000 or more annually to 1.5% and overall limiting the full Management Group to an increase of 2.1%. This maximum of 1.5% impacted all Named Executives in the IESO disclosure. Furthermore, the IESO has generally restricted salary increases into 2010 for Management Group staff, including executives.

Program Description - Variable Compensation

In order to promote a results orientation in the senior team, the variable pay plan is a significant component of the total compensation of executives. The CEO's target for variable compensation for 2009 was at 65% of fixed compensation and the target for Vice Presidents was 50% of fixed compensation. The plan provides for awards above or below target amounts depending on the performance results achieved. The IESO Board annually establishes a robust set of performance measures which are evaluated each year and these results carry a 70% weight within each executive's variable compensation award. The remaining

30% results from the assessment of predetermined measures/targets established for each individual executive. To address retention, 50% of the earned variable compensation is deferred and paid out over a three year period, with accrued but unpaid amounts forfeited in the event of termination with cause or voluntary resignation.

Program Description - Group Benefits

The group benefit plan provides a core level of health & dental benefits, life insurance, disability coverage and vacation which can be adjusted by the executives through the flexible component of the plan. The flexible element provides executives the option of adjusting their benefits to meet their individual/ family needs including vacation above core amounts, levels of life insurance, health coverage and other components.

Program Description - Pension Plan

A defined benefit pension plan provides annual retirement income calculated as 2% of pensionable earnings (fixed compensation and one-half of variable compensation paid during the highest paid 36 consecutive months of service) multiplied by years of service, to a maximum of thirty-five years. This formula provides a maximum benefit of 70% of highest paid, pre-retirement earnings. The Canadian Revenue Agency limits the amount of pension payable from a registered plan and the IESO has a supplemental employee retirement plan (SERP) to provide pension income above that payable from the registered plan. Pension plan funding is a combination of employer and employee contributions.

Pension benefits from the plan are designed to provide a level income stream before and after age 65, when the IESO pension is reduced to reflect provisions from the Canada Pension Plan. The plan provides several benefit options including member's life only or joint and survivor pensions. As well there are pre-retirement death provisions to provide benefits to surviving spouses or beneficiaries.

Performance Measures and Impact on Compensation

The IESO annually establishes corporate performance measures relating to its business priorities during the business planning process. These are approved, monitored and assessed by the IESO Board of Directors each year. Individual performance measures supporting one or more corporate performance measure are also developed for each executive.

As outlined above the results achieved each year impact on each executive's variable pay. The following chart highlights each of the business perspectives where measures are established and provides a brief description of the type of measurement which was approved by the IESO Board of Directors for 2009.

Business Perspective	Areas of Measurement
Customer & Stakeholders (35% Weight)	• Customer-facing electricity market operations and processes • Support Smart Meter Implementation Plan • Smart Metering governance • Stakeholdering process effectiveness • Customer satisfaction • Process assurance • Products/services initiatives and improvements
Reliability (35% Weight)	• Addressing reliability events • Ensuring Ontario's annual System Unsupplied Energy is within acceptable limits • Compliance with NERC and NPCC reliability standards • Customer-facing reliability related operational measures • The IESO contributes to relevant Ontario regulatory proceedings and effectively manages Ontario and International reliability standard development processes
Effective Use of Funds (15% Weight)	• Budget performance: Total Spending and Capital Expenditures • Delivery of Key Capital Projects
People (15% Weight)	• Employee engagement • Employee development • Sustainable employment environment

A five point rating scale ranging from unsatisfactory to outstanding is used to assess the results for both corporate and individual performance objectives and is used to calculate the associated variable pay amount. According to this scale corporate results may be rated from zero to two times the target variable amount while individual results can range from zero to 1.7 times the target amount (the table below outlines the ratings in detail). A payout factor is then determined and applied to the target variable pay amount for each executive.

Type of Performance	Corporate Rating	Individual Rating
Exceptional/outstanding	1.8 - 2.0	1.5 - 1.7
Exceeding expectations	1.3 - 1.7	1.2 - 1.4
Meeting expectations	0.8 - 1.2	0.8 - 1.1
Approaching expectations	0.3 - 0.7	0.4 - 0.7
Unsatisfactory/below expectations	0.0	0.0

For the 2010 Management Compensation Program these ratings have been limited to a maximum of 1.5 for both the corporate and individual ratings.

Other Considerations

Compensation decisions may at times be impacted by market factors – such as the recruitment of an executive with specialized skills/competencies or possessing unique talents within the industry. To this end individual incumbent arrangements are sometimes established relating to terms of employment and the possibility of future termination. The CEO has an employment agreement which outlines terms and conditions for a five and one-half year period of employment and includes termination provisions of 24 months for severance. Some Vice-Presidents also have provisions which provide 24 months or less of severance for termination without cause. In addition, two Vice Presidents (Mr. Campbell and Mr. Limbrick) have agreements to provide accelerated pension provisions such that, at age 65, they will each have 25 years of credited service.

Executive Compensation and Pension Statements

The first table below details the annual compensation for the year ended December 31, 2009 for the Executive Officers listed. The information provided in the Summary Compensation Table differs from the information published under the *Public Sector Salary Disclosure Act* (Ontario) for the indicated period due to the timing of payment of variable pay. Disclosures under the *Public Sector Salary Disclosure Act* are limited to amounts listed on T4 taxation forms for each year (i.e. includes variable pay paid out in 2009) whereas information in the summary compensation table is based on the year for which the variable pay was earned. Variable pay is determined early in the year following the year assessed. Under the IESO plan 50% of that amount is paid early in the year following the assessed year and 50% is deferred for payment in future years.

The second table below outlines pension plan participation and benefits for each of the Executive Officers listed. Specifically detailed are

- Total years of credited service in the pension plan
- The increase in the compensatory value of the pension (due to increased service and pensionable earnings) during 2009
- The increase in the non-compensatory value of pension (due to a decrease in the pension discount rate) during 2009
- The accrued pension payable annually if the executive retired as of December 31, 2009
- The estimated annual pension with service credits projected to age 65 using actual pensionable earnings as of December 31, 2009

Various factors have an impact on pension calculations and, should interest or discount rates vary significantly form one year to the next, there will be volatility in year over year pension amounts reported – pensions are long-term investments.

SUMMARY COMPENSATION TABLE

Name and Position	Year	Salary	Variable Pay[1] Paid	Variable Pay[1] Deferred	Other Annual Compensation[2]	Total Cash Compensation	Amounts Reported Under Public Sector Salary Disclosure
Paul Murphy President and CEO	2009	**$331,397**	**$106,088**	**$106,088**	**$25,091**	**$568,664**	**$591,716**
Ted Leonard[3] VP Finance CFO and Treasurer	2009	**$185,000**	**$46,422**	**$22,865**	**$3,840**	**$258,127**	**$256,739**
Gary Sherkey[4] VP Corp. Services CFO and Treasurer	2009	**$128,704**	**$64,352**	**$0**	**$2,730**	**$195,786**	**$484,111**
Ken Kozlik VP Operations and COO	2009	**$228,375**	**$56,237**	**$56,237**	**$13,438**	**$354,287**	**$335,879**
Bill Limbrick VP Organization Development and CIO	2009	**$269,705**	**$66,415**	**$66,415**	**$122**	**$402,657**	**$430,203**
Bruce Campbell VP Resource Integration	2009	**$275,063**	**$67,734**	**$67,734**	**$1,587**	**$412,118**	**$438,103**

[1] Reflects variable pay earned in 2009 and subsequently paid out to each executive in early 2010 (50%) with deferred amounts (50%) to be paid over the subsequent 2 years with interest.

[2] Includes residual payout from IESO's flex benefit plan.

[3] Ted Leonard promoted to CFO from Director, Finance on July 1, 2009.

[4] Gary Sherkey left the IESO on June 22, 2009. The fixed and variable earnings reported have been pro-rated for the period of employment. The Public Sector Salary Disclosure includes payment made for the previous year's variable pay and past deferrals of variable pay.

PENSION BENEFITS TABLE

Name and Position	Number of Years Credited Service	Increased Pension Value During 2009		Annual Benefits Payable Upon Retirement[1]	
		Compensatory Amount During Year	Non Compensatory Amount During Year	At Year-End (2009)	At Age 65
Paul Murphy President and CEO	32.3	$202,000	$543,000	$263,000	$285,000
Ted Leonard VP Finance CFO and Treasurer	13.8	$71,000	$123,000	$51,000	$130,000
Gary Sherkey[2] VP Corp. Services CFO and Treasurer	7.3	($36,000)	$136,000	$45,000	$45,000
Ken Kozlik VP Operations and COO	31.1	$117,000	$322,000	$147,000	$166,000
Bill Limbrick VP Organization Development and CIO	15.8	$187,000	$153,000	$105,000	$166,000
Bruce Campbell VP Resource Integration	19.8	$226,000	$193,000	$135,000	$171,000

[1] Assumes no increase in pensionable earnings beyond those in effect as of year-end 2009.

[2] Accrued benefits are as at June 22, 2009 for G. Sherkey.

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