

Independent Electricity System Operator
Statement of Financial Position
(Unaudited)

As at (in thousands of Canadian dollars)	September 30, 2011	December 31, 2010
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	9,702	8,609
Accounts receivable	13,465	15,755
Long-term investments	22,514	21,816
TOTAL ASSETS	45,681	46,180
LIABILITIES		
Accounts payable and accrued liabilities	20,054	22,090
Accrued interest on debt	760	161
Short-term debt	26,000	2,000
Long-term debt	78,200	78,200
Rebates to market participants	-	10,193
Accrued pension liability	59,536	67,866
Accrual for employee future benefits other than pensions	63,481	60,222
TOTAL LIABILITIES	248,031	240,732
NET DEBT	(202,350)	(194,552)
NON-FINANCIAL ASSETS		
Net tangible capital assets	88,295	88,542
Prepaid expenses	3,777	3,769
TOTAL NON-FINANCIAL ASSETS	92,072	92,311
ACCUMULATED DEFICIT (Note 3)		
Accumulated deficit from operations	(109,843)	(102,241)
Accumulated remeasurement gain	(435)	-
ACCUMULATED DEFICIT	(110,278)	(102,241)

Independent Electricity System Operator
Statements of Operations and Accumulated Deficit
(Unaudited)

For the nine months ended September 30 (in thousands of Canadian dollars)	2011 Budget \$	2011 Actual \$	2010 Actual \$
REVENUES			
System fees	86,594	86,680	94,936
Other revenue	2,175	2,555	2,018
Interest and investment income	75	382	1,659
TOTAL REVENUES	88,844	89,617	98,613
EXPENSES			
Wholesale market operation	96,568	85,962	83,609
Smart metering program	13,109	11,257	9,639
TOTAL EXPENSES	109,677	97,219	93,248
ANNUAL SURPLUS / (DEFICIT)	(20,833)	(7,602)	5,365
ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD	(102,241)	(102,241)	(100,142)
ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD	(123,074)	(109,843)	(94,777)



Independent Electricity System Operator
Statement of Remeasurement Gains and Losses
(Unaudited)

For the nine months ended September 30 (in thousands of Canadian dollars)	2011
	Actual
	\$
ACCUMULATED REMEASUREMENT GAIN, BEGINNING OF PERIOD	-
UNREALIZED GAINS / (LOSSES) ATTRIBUTABLE TO:	
Foreign Exchange - Derivatives	100
Foreign Exchange - Other	(82)
Portfolio Investments	(453)
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:	
Portfolio Investments	-
NET REMEASUREMENT GAINS / (LOSSES) FOR THE PERIOD	(435)
ACCUMULATED REMEASUREMENT GAIN, END OF PERIOD	(435)



Independent Electricity System Operator
Statement of Change in Net Debt
(Unaudited)

For the nine months ended September 30 (in thousands of Canadian dollars)	2011	2011	2010
	Budget	Actual	Actual
	\$	\$	\$
YEAR TO DATE SURPLUS / (DEFICIT)	(20,833)	(7,602)	5,365
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(19,189)	(10,372)	(12,578)
Amortization of tangible capital assets	11,242	10,620	11,896
Decrease/(Increase) in prepaid expenses	(209)	(8)	701
TOTAL CHANGE IN NON-FINANCIAL ASSETS	(8,156)	240	19
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	938	(435)	-
(INCREASE) / DECREASE IN NET DEBT	(28,051)	(7,797)	5,384
NET DEBT, BEGINNING OF PERIOD	(194,553)	(194,553)	(190,258)
NET DEBT, END OF PERIOD	(222,604)	(202,350)	(184,874)

Independent Electricity System Operator
Statement of Cash Flows
(Unaudited)

For the nine months ended September 30 (in thousands of Canadian dollars)	2011	2010
	\$	\$
OPERATING TRANSACTIONS		
Change in accumulated surplus / (deficit)		
Annual surplus (deficit)	(7,602)	5,365
Changes in non-cash items		
Amortization	10,620	11,896
Pension liability	10,245	8,595
Other employee future benefits cost	4,594	4,142
Change in fair value of long-term investments held for trading	453	(980)
	25,912	23,653
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	228	421
Change in accounts receivable	2,290	(235)
Change in rebates to market participants	(10,193)	(4,324)
Change in accrued interest	598	62
Change in prepaid expenses	(8)	701
	(7,085)	(3,375)
Other:		
Contribution to pension fund	(18,575)	(13,380)
Payment of employee future benefits	(1,335)	(1,302)
	(19,910)	(14,682)
Cash provided by (applied to) operating transactions	(8,685)	10,961
CAPITAL TRANSACTIONS		
Investment in property and equipment	(12,636)	(10,929)
Cash provided by (applied to) capital transactions	(12,636)	(10,929)
INVESTING TRANSACTIONS		
Purchase of long-term investments	(1,151)	(1,004)
Cash provided by (applied to) investing transactions	(1,151)	(1,004)
FINANCING TRANSACTIONS		
Issue debt	24,000	3,000
Cash provided by (applied to) financing transactions	24,000	3,000
INCREASE IN CASH AND CASH EQUIVALENTS	1,528	2,028
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	8,609	8,990
Net remeasurement gains / (losses) for the period	(435)	-
CASH AND CASH EQUIVALENTS - END OF PERIOD	9,702	11,018

Supplementary Information: (in thousands of Canadian dollars)

Interest Paid	594	399
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Independent Electricity System Operator

Notes to Financial Statements (unaudited)

September 30, 2011

1) BASIS OF FINANCIAL STATEMENT PREPARATION

As of January 1, 2011, Part V of the CICA Handbook ceased to be a source of Generally Accepted Accounting Principles (GAAP) for the IESO. On that date, the IESO adopted Public Sector Accounting Board (PSAB) accounting standards with a transition date of January 1, 2010.

The IESO's adoption of PSAB includes early adoption of Sections PS 3450, *Financial Instruments*, PS 1201, *Financial Statement Presentation*, and PS 2601, *Foreign Currency Translation*. Additionally, the IESO exercised an exemption within Section PS 2125, *First-time Adoption by Government Organizations*.

PSAB requires restatement of the comparative period, except for the adoption of Section PS 3450, *Financial Instruments* and PS 2601, *Foreign Currency Translation*.

2) SIGNIFICANT ACCOUNTING POLICIES

In adopting PSAB, the framework for accounting changes, however, many of the significant accounting policies of the IESO remain unchanged.

The following outlines the accounting policies in areas which changed as a result of the IESO's adoption of PSAB:

Financial instruments

The IESO records its cash and cash equivalents, investment portfolio, and foreign currency exchange forward contracts at fair value. While held by the IESO, the cumulative change in fair value of these financial instruments is recorded in accumulated surplus as remeasurement gains and losses and is included in the value of the respective financial instrument shown in the statement of financial position and the statement of remeasurement gains and losses. Upon disposition of the financial instrument, the cumulative remeasurement gains and losses are reclassified to the statement of operations and all other gains and losses associated with the disposition of the financial instrument are recorded in the statement of operations. Transaction costs are charged to operations as incurred.

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

The IESO records its accounts receivable, accounts payable and debt at amortized cost.

Property and equipment in service

Property and equipment includes software, facilities, meter data management/repository, market systems and applications, infrastructure and other assets. Property and equipment are capitalized at cost, which comprises materials, labour, external support, overhead, and interest applicable to capital activities.

Intangible Assets

The IESO no longer has a policy for intangible assets since the IESO no longer has intangible assets as software is classified as property and equipment under PSAB standards.

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 the expected rate of return on plan assets 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 cost of plan amendments in the period. 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. Actuarial gains/(losses) are 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 12 years (2010 - 11 years).

In its transition to PSAB, the IESO exercised an exemption for first time adoption by a government organization. The exemption allows for the pension and OPEB accumulated unamortized actuarial gains and losses, as of the date of transition, to be moved directly in accumulated surplus/deficit. At January 1, 2010 the unrecognized actuarial loss for pension benefits was \$72,847 thousand and the unrecognized actuarial loss for OPEB was \$5,275 thousand.

Unrecognized past service costs for pension and OPEB, as of the date of transition, was accounted for as an adjustment to opening accumulated deficit balance. At January 1, 2010 the unrecognized past service cost for pension benefit was \$2,323 thousand and the unrecognized past service cost for OPEB was \$172 thousand.

The discount rate and return on asset assumption at January 1, 2010 was 6.75%.

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. Items on the statement of financial position denominated in foreign currency are translated to Canadian dollars as of the financial statement date. The cumulative unrealized foreign currency exchange gains and losses of items continuing to be recognized on the statement of financial position are recorded in accumulated surplus as remeasurement gains and losses and shown in the statement of financial position and the statement of remeasurement gains and losses. Upon settlement of the item denominated in a foreign currency, the cumulative remeasurement gains and losses are reclassified to the statement of operations and all other gains and losses associated with the disposition of the financial instrument are recorded in the statement of operations.

3) ACCUMULATED DEFICIT

As at September 30, 2011 and December 31, 2010, the components of the IESO's Accumulated Deficit were as follows:

Accumulated Deficit

(in thousands of Canadian dollars)	As at September 30, 2011	As at December 31, 2010
Approved regulatory deferral account	9,307	11,021
Accumulated market penalties and fines	1,005	1,134
Smart Metering Entity – accumulated deficit	(52,970)	(41,713)
PSAB Transitional Items	(67,620)	(72,683)
Accumulated Deficit	(110,278)	(102,241)

Approved regulatory deferral account

(in thousands of Canadian dollars)	
Accumulated surplus – December 31, 2010	13,100
2010 Pension cost under CICA Handbook	15,692
2010 OPEB cost under CICA Handbook	7,147

2010 Pension cost restated under PSAB	(11,461)
2010 OPEB cost restated under PSAB	(5,523)
Recovery of PSAB transitional items	(7,934)
Restated accumulated surplus – December 31, 2010	11,021
Surplus from wholesale operations	3,784
Increase in accumulated remeasurement loss	(435)
Recovery of PSAB transitional items	(5,063)
Accumulated surplus – September 30, 2011	9,307

Accumulated Market Penalties and Fines

(in thousands of Canadian dollars)	
Accumulated surplus – December 31, 2010	1,134
Revenue from penalties and fines	29
Customer education expenses	(158)
Accumulated deficit – September 30, 2011	1,005

Smart Metering Entity – Accumulated Deficit

(in thousands of Canadian dollars)	
Accumulated deficit – December 31, 2010	(41,713)
Smart meter program costs	(11,257)
Accumulated deficit – September 30, 2011	(52,970)

PSAB Transitional Items

(in thousands of Canadian dollars)	
Accumulated pension actuarial loss at January 1, 2010 transition	(72,847)
Accumulated OPEB actuarial loss at January 1, 2010 transition	(5,275)
Unrecognized past service costs for pension at January 1, 2010 transition	(2,323)
Unrecognized past service costs for OPEB at January 1, 2010 transition	(172)
Recovery of PSAB transitional items	7,934
Accumulated deficit - December 31, 2010	(72,683)
Recovery of PSAB transitional items	5,063
Accumulated deficit - September 30, 2011	(67,620)

4) REGULATORY APPROVALS FOR 2011

On April 25, 2011, the Ontario Energy Board (OEB) issued its order approving the IESO's application fee of \$1000, the usage fee of \$0.822/MWh and the IESO's revenue requirements in the amount of \$126.0 million and capital expenditures in the amount of \$21.5 million. Included within the approved revenue requirements was the recovery of the estimated PSAB transitional items for pension and OPEB over the expected average remaining service life of the employees covered by the plan

In its 2011 rate application, the IESO requested to retain \$13.1 million in its approved regulatory deferral account. This request was denied and the OEB approved the IESO retain \$5.0 million within its approved regulatory deferral account. The difference, of \$8.1 million, was recognized in April 2011 through a reduction in system fees revenue and an increase in rebates to market participants.

5) DEBT

Note payable to Ontario Electricity Finance Corporation (OEFC)

In May 2011, the IESO entered into a two-year note payable with the OEFC. The note payable is unsecured, bears interest at a fixed rate of 2.245% per annum and is repayable in full on May 1, 2013. Interest accrues daily and is payable in arrears semi-annually in May and November of each year. As at September 30, 2011, the note payable to the OEFC was \$78.2 million (December 31, 2009 - \$78.2 million).

Credit facility

The IESO has an unsecured credit facility agreement with the OEFC, which will make available to the IESO an amount up to \$60.0 million. Advances under the credit facility are payable at a variable interest rate equal to the Province of Ontario's cost of borrowing for a 30 day term plus 0.25% per annum, with draws, repayments and interest payments due monthly. The credit facility expires April 30, 2013. As at September 30, 2011, \$26.0 million was drawn on the credit facility (December 31, 2010 - \$2.0 million).