# *Independent Electricity System Operator*
## *Statement of Financial Position*
## *(Unaudited)*

| As at (in thousands of Canadian dollars) | March 31, 2012 | December 31, 2011 |
|---|---|---|
| | $ | $ |
| **FINANCIAL ASSETS** | | |
| Cash and cash equivalents | 7,072 | 5,626 |
| Accounts receivable | 13,947 | 14,135 |
| Long-term investments | 25,382 | 24,341 |
| **TOTAL ASSETS** | **46,401** | **44,102** |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | 17,250 | 20,142 |
| Accrued interest on debt | 767 | 325 |
| Rebates due to market participants | 3,517 | 3,517 |
| Short-term debt | 35,000 | 32,000 |
| Long-term debt | 78,200 | 78,200 |
| Accrued pension liability | 53,472 | 54,928 |
| Accrual for employee future benefits other than pensions | 65,757 | 64,541 |
| **TOTAL LIABILITIES** | **253,963** | **253,653** |
| **NET DEBT** | **(207,562)** | **(209,551)** |
| **NON-FINANCIAL ASSETS** | | |
| Net tangible capital assets | 86,022 | 87,902 |
| Prepaid expenses | 3,369 | 3,103 |
| **TOTAL NON-FINANCIAL ASSETS** | **89,391** | **91,005** |
| **ACCUMULATED SURPLUS / (DEFICIT) (Note 3)** | | |
| Accumulated deficit from operations | (118,761) | (118,172) |
| Accumulated remeasurement gain / (losses) | 590 | (374) |
| **ACCUMULATED DEFICIT** | **(118,171)** | **(118,546)** |

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

| For the quarter ended March 31 (in thousands of Canadian dollars) | 2012 Budget | 2012 Actual | 2011 Actual |
|---|---|---|---|
| **WHOLESALE MARKET OPERATIONS** | | | |
| System fees | 34,050 | 31,641 | 33,121 |
| Other revenue | 1,021 | 902 | 644 |
| Interest and investment income | 89 | 118 | 120 |
| **Wholesale Market Operations Revenues** | **35,160** | **32,661** | **33,885** |
| Wholesale market operation expenses | 32,789 | 29,557 | 28,653 |
| **Wholesale Market Operations Surplus** | **2,371** | **3,104** | **5,232** |
| **MARKET PENALTIES AND FINES** | | | |
| Revenue from penalties and fines | 0 | 7 | 32 |
| Customer education expenses | 73 | 41 | 41 |
| **Market Penalties and Fines Deficit** | **(73)** | **(34)** | **(9)** |
| **SMART METERING PROGRAM** | | | |
| Smart metering program funding | 10,397 | 0 | 0 |
| Smart metering program expenses | 7,100 | 3,659 | 3,332 |
| **Smart Metering Program Surplus / (Deficit)** | **3,297** | **(3,659)** | **(3,332)** |
| **SURPLUS / (DEFICIT)** | **5,595** | **(589)** | **1,891** |
| ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD | (118,172) | (118,172) | (102,591) |
| **ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD** | **(112,577)** | **(118,761)** | **(100,700)** |

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

| For the quarter ended March 31 (in thousands of Canadian dollars) | 2012 | 2011 |
|---|---|---|
| | Actual | Actual |
| | $ | $ |
| **ACCUMULATED REMEASUREMENT LOSSES, BEGINNING OF YEAR** | **(374)** | **-** |
| **UNREALIZED GAINS (LOSSES) ATTRIBUTABLE TO:** | | |
| Foreign Exchange - Derivatives | 32 | (101) |
| Foreign Exchange - Other | 41 | (28) |
| Portfolio Investments | 939 | 227 |
| **AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:** | | |
| Foreign Exchange - Derivatives | (2) | - |
| Foreign Exchange - Other | (46) | - |
| **NET REMEASUREMENT GAINS FOR THE PERIOD** | **964** | **98** |
| **ACCUMULATED REMEASUREMENT GAIN, END OF PERIOD** | 590 | 98 |

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

| For the quarter ended March 31 (in thousands of Canadian dollars) | 2012 | 2012 | 2011 |
|---|---|---|---|
| | Budget | Actual | Actual |
| | $ | $ | $ |
| **SURPLUS / (DEFICIT)** | 5,595 | (589) | 1,891 |
| **CHANGE IN NON-FINANCIAL ASSETS** | | | |
| Acquisition of tangible capital assets | (5,192) | (2,252) | (2,296) |
| Amortization of tangible capital assets | 4,103 | 4,133 | 3,496 |
| Decrease/(Increase) in prepaid expenses | 187 | (267) | 409 |
| **TOTAL CHANGE IN NON-FINANCIAL ASSETS** | (902) | 1,614 | 1,609 |
| **NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD** | 200 | 964 | 98 |
| **DECREASE IN NET DEBT** | 4,893 | 1,989 | 3,598 |
| **NET DEBT, BEGINNING OF YEAR** | (209,551) | (209,551) | (194,903) |
| **NET DEBT, END OF PERIOD** | (204,658) | (207,562) | (191,305) |

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## *Independent Electricity System Operator*
## *Statement of Cash Flows*
## *(Unaudited)*

| For the quarter ended March 31 (in thousands of Canadian dollars) | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **OPERATING TRANSACTIONS** | | |
| Change in accumulated surplus / (deficit) | | |
| Surplus / (deficit) | (589) | 1,891 |
| | (589) | 1,891 |
| Changes in non-cash items | | |
| Amortization | 4,133 | 3,496 |
| Pension expense | 2,767 | 3,111 |
| Other employee future benefits expense | 1,627 | 1,750 |
| | 8,527 | 8,357 |
| Changes in non-cash balances related to operations: | | |
| Change in accounts payable and accrued liabilities | (1,086) | (3,794) |
| Change in accounts receivable | 188 | 1,737 |
| Change in rebates due to market participants | - | - |
| Change in prepaid expenses | (267) | 409 |
| | (1,165) | (1,648) |
| Other: | | |
| Contribution to pension fund | (4,223) | (2,293) |
| Payment of employee future benefits | (411) | (399) |
| | (4,634) | (2,692) |
| **Cash applied to operating transactions** | **2,139** | **5,908** |
| **CAPITAL TRANSACTIONS** | | |
| Acquisition of tangible capital assets | (2,252) | (2,296) |
| Change in accounts payable & accrued liabilities | (1,364) | (464) |
| **Cash applied to capital transactions** | **(3,616)** | **(2,760)** |
| **INVESTING TRANSACTIONS** | | |
| Purchase of long-term investments | (102) | (96) |
| **Cash applied to investing transactions** | **(102)** | **(96)** |
| **FINANCING TRANSACTIONS** | | |
| Issue/(Retire) debt | 3,000 | (2,000) |
| **Cash provided by (applied to) financing transactions** | **3,000** | **(2,000)** |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | **1,421** | **1,052** |
| **CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD** | 5,626 | 8,609 |
| Unrealized foreign exchange gains / (losses) for the period | 25 | (129) |
| **CASH AND CASH EQUIVALENTS - END OF PERIOD** | **7,072** | **9,532** |

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## 1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2011 annual financial statements, except where noted below. The interim financial statements should be read in conjunction with the 2011 annual financial statements. It is management's assessment that the IESO continues to operate as a going concern and these financial statements have been prepared accordingly.

## 2) ACCUMULATED DEFICIT

As at March 31, 2012 and December 31, 2011, the components of the IESO's Accumulated Deficit were as follows:

### Accumulated Deficit

| (in thousands of Canadian dollars) | As at March 31, 2012 | As at December 31, 2011 |
|---|---:|---:|
| Approved regulatory deferral account | 7,518 | 5,000 |
| Accumulated market penalties and fines | 920 | 954 |
| Smart Metering Entity – accumulated deficit | (62,283) | (58,624) |
| PSAB Transitional Items | (64,326) | (65,876) |
| **Accumulated Deficit** | **(118,171)** | **(118,546)** |

### Approved regulatory deferral account

| (in thousands of Canadian dollars) | |
|---|---:|
| Accumulated surplus – December 31, 2011 | 5,000 |
| Surplus from wholesale operations | 3,104 |
| Increase in accumulated remeasurement gain | 964 |
| Recovery of PSAB transitional items | (1,550) |
| **Accumulated surplus – March 31, 2012** | **7,518** |

### Accumulated Market Penalties and Fines

| (in thousands of Canadian dollars) | |
|---|---:|
| Accumulated surplus – December 31, 2011 | 954 |
| Revenue from penalties and fines | 7 |
| Customer education expenses | (41) |
| **Accumulated surplus – March 31, 2012** | **920** |

**Smart Metering Entity – Accumulated Deficit**

| (in thousands of Canadian dollars) | |
|---|---|
| Accumulated deficit – December 31, 2011 | (58,624) |
| Smart meter program costs | (3,659) |
| **Accumulated surplus – March 31, 2012** | **(62,283)** |

**PSAB Transitional Items**

| (in thousands of Canadian dollars) | |
|---|---|
| Accumulated deficit - December 31, 2011 | **(65,876)** |
| Recovery of PSAB transitional items | 1,550 |
| **Accumulated surplus – March 31, 2012** | **(64,326)** |

## 3) REGULATORY APPROVALS FOR 2012

On April 26, 2012 the Ontario government proposed and had first reading of Bill 75, Ontario Electricity System Operator Act, 2012. The proposed bill amends the *Electricity Act, 1998* by amalgamating the Independent Electricity System Operator (IESO) and the Ontario Power Authority (OPA). The bill also proposes that the Ontario Energy Board's (OEB) order approving the IESO's interim usage fees of $0.822/MWh for the 2012 fiscal year shall continue to be in effect until the OEB approves the first expenditures and revenue requirements and fees for the amalgamated entity.

## 4) EXPENSE BY OBJECT

Expenses by object comprise of the following:

| | **Wholesale market operations** | **Wholesale market operations** | **Smart metering program** | **Smart metering program** |
|---|---|---|---|---|
| **For the quarter ended March 31** | **2012** | **2011** | **2012** | **2011** |
| **(in thousands of Canadian dollars)** | **$** | **$** | **$** | **$** |
| Labour | 19,403 | 19,172 | 622 | 540 |
| Computer services, support and equipment | 2,753 | 2,563 | 88 | 11 |
| Contract services and consultants | 1,147 | 1,063 | 1,924 | 2,183 |
| Telecommunications | 691 | 744 | 1 | 3 |
| Other costs | 1,907 | 1,921 | 0 | 0 |
| Amortization | 3,460 | 3,070 | 673 | 426 |
| Interest expense and financing charges | 196 | 120 | 351 | 169 |
| **Total Expense** | **29,557** | **28,653** | **3,659** | **3,332** |