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

| As at (in thousands of Canadian dollars) | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | $ | $ |
| **FINANCIAL ASSETS** | | |
| Cash and cash equivalents | 632 | 5,626 |
| Accounts receivable | 14,346 | 14,135 |
| Long-term investments | 26,874 | 24,341 |
| **TOTAL ASSETS** | **41,852** | **44,102** |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | 20,411 | 20,142 |
| Accrued interest on debt | 769 | 325 |
| Rebates due to market participants | 3,517 | 3,517 |
| Short-term debt | 40,000 | 32,000 |
| Long-term debt | 78,200 | 78,200 |
| Accrued pension liability | 42,926 | 54,928 |
| Accrual for employee future benefits other than pensions | 68,144 | 64,541 |
| **TOTAL LIABILITIES** | **253,967** | **253,653** |
| **NET DEBT** | **(212,115)** | **(209,551)** |
| **NON-FINANCIAL ASSETS** | | |
| Net tangible capital assets | 85,726 | 87,902 |
| Prepaid expenses | 3,209 | 3,103 |
| **TOTAL NON-FINANCIAL ASSETS** | **88,935** | **91,005** |
| **ACCUMULATED SURPLUS / (DEFICIT) (Note 2)** | | |
| Accumulated deficit from operations | (124,163) | (118,172) |
| Accumulated remeasurement gain / (losses) | 983 | (374) |
| **ACCUMULATED DEFICIT** | **(123,180)** | **(118,546)** |

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

| For the nine months ended September 30 (in thousands of Canadian dollars) | 2012 Budget | 2012 Actual | 2011 Actual |
|---|---|---|---|
| **WHOLESALE MARKET OPERATIONS** | | | |
| System fees | 96,289 | 94,602 | 86,693 |
| Other revenue | 3,102 | 3,009 | 2,513 |
| Interest and investment income | 267 | 366 | 382 |
| **Wholesale Market Operations Revenues** | **99,658** | **97,977** | **89,588** |
| Wholesale market operation expenses | 95,879 | 87,494 | 85,803 |
| **Wholesale Market Operations Surplus** | **3,779** | **10,483** | **3,785** |
| **MARKET PENALTIES AND FINES** | | | |
| Revenue from penalties and fines | - | 110 | 29 |
| Customer education expenses | 221 | 176 | 159 |
| Settlement dispute expenses | - | 153 | - |
| **Market Penalties and Fines Deficit** | **(221)** | **(219)** | **(130)** |
| **SMART METERING PROGRAM** | | | |
| Smart metering program funding | 31,190 | - | - |
| Smart metering program expenses | 21,330 | 16,255 | 11,257 |
| **Smart Metering Program Surplus / (Deficit)** | **9,860** | **(16,255)** | **(11,257)** |
| **SURPLUS / (DEFICIT)** | **13,418** | **(5,991)** | **(7,602)** |
| ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD | (118,172) | (118,172) | (102,591) |
| **ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD** | **(104,754)** | **(124,163)** | **(110,193)** |

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

| For the nine months ended September 30 (in thousands of Canadian dollars) | 2012 | 2011 |
|---|---|---|
| | Actual | Actual |
| | $ | $ |
| **ACCUMULATED REMEASUREMENT LOSSES, BEGINNING OF YEAR** | **(374)** | **-** |
| **UNREALIZED GAINS / (LOSSES) ATTRIBUTABLE TO:** | | |
| Foreign Exchange - Derivatives | (28) | 100 |
| Foreign Exchange - Other | 97 | (82) |
| Portfolio Investments | 1,336 | (453) |
| **AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:** | | |
| Foreign Exchange - Derivatives | (2) | - |
| Foreign Exchange - Other | (46) | - |
| **NET REMEASUREMENT GAINS / (LOSSES) FOR THE PERIOD** | **1,357** | **(435)** |
| **ACCUMULATED REMEASUREMENT GAIN / (LOSS), END OF PERIOD** | **983** | **(435)** |

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

| For the nine months ended September 30 (in thousands of Canadian dollars) | 2012 | 2012 | 2011 |
|---|---|---|---|
| | Budget | Actual | Actual |
| | $ | $ | $ |
| **SURPLUS / (DEFICIT)** | 13,418 | (5,991) | (7,602) |
| **CHANGE IN NON-FINANCIAL ASSETS** | | | |
| Acquisition of tangible capital assets | (15,576) | (10,310) | (10,372) |
| Amortization of tangible capital assets | 13,343 | 12,487 | 10,620 |
| Decrease/(Increase) in prepaid expenses | (257) | (107) | (8) |
| **TOTAL CHANGE IN NON-FINANCIAL ASSETS** | **(2,490)** | **2,070** | **240** |
| **NET REMEASUREMENT GAINS / (LOSSES) FOR THE PERIOD** | 600 | 1,357 | (435) |
| **DECREASE / (INCREASE) IN NET DEBT** | **11,528** | **(2,564)** | **(7,797)** |
| **NET DEBT, BEGINNING OF YEAR** | (209,551) | (209,551) | (194,903) |
| **NET DEBT, END OF PERIOD** | **(198,203)** | **(212,115)** | **(202,700)** |

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

| For the nine months ended September 30 (in thousands of Canadian dollars) | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **OPERATING TRANSACTIONS** | | |
| Change in accumulated surplus / (deficit) | | |
| Deficit | (5,991) | (7,602) |
| | (5,991) | (7,602) |
| Changes in non-cash items | | |
| Amortization | 12,487 | 10,620 |
| Pension expense | 8,996 | 10,245 |
| Other employee future benefits expense | 4,873 | 4,594 |
| | 26,356 | 25,459 |
| Changes in non-cash balances related to operations: | | |
| Change in accounts payable and accrued liabilities | 1,688 | 826 |
| Change in accounts receivable | (211) | 2,290 |
| Change in rebates due to market participants | - | (10,193) |
| Change in prepaid expenses | (107) | (8) |
| | 1,370 | (7,085) |
| Other: | | |
| Contribution to pension fund | (20,998) | (18,575) |
| Payment of employee future benefits | (1,271) | (1,335) |
| | (22,269) | (19,910) |
| **Cash applied to capital transactions** | **(534)** | **(9,138)** |
| **CAPITAL TRANSACTIONS** | | |
| Acquisition of tangible capital assets | (10,310) | (10,372) |
| Change in accounts payable & accrued liabilities | (975) | (2,264) |
| **Cash applied to capital transactions** | **(11,285)** | **(12,636)** |
| **INVESTING TRANSACTIONS** | | |
| Purchase of long-term investments | (1,197) | (1,151) |
| **Cash applied to investing transactions** | **(1,197)** | **(1,151)** |
| **FINANCING TRANSACTIONS** | | |
| Issue debt | 8,000 | 24,000 |
| **Cash provided by financing transactions** | **8,000** | **24,000** |
| **INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(5,016)** | **1,075** |
| **CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD** | 5,626 | 8,609 |
| Unrealized foreign exchange gains for the period | 22 | 18 |
| **CASH AND CASH EQUIVALENTS - END OF PERIOD** | **632** | **9,702** |

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**Independent Electricity System Operator**
Notes to Financial Statements (unaudited)

September 30, 2012

## 1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2011 annual financial statements. 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 September 30, 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 September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| Approved regulatory deferral account | 12,190 | 5,000 |
| Accumulated market penalties and fines | 735 | 954 |
| Smart Metering Entity – accumulated deficit | (74,879) | (58,624) |
| PSAB Transitional Items | (61,226) | (65,876) |
| **Accumulated Deficit** | **(123,180)** | **(118,546)** |

**Approved Regulatory Deferral Account**

| (in thousands of Canadian dollars) | |
|---|---|
| Accumulated surplus – December 31, 2011 | 5,000 |
| Surplus from wholesale operations | 10,483 |
| Increase in accumulated remeasurement gain | 1,357 |
| Recovery of PSAB transitional items | (4,650) |
| **Accumulated surplus – September 30, 2012** | **12,190** |

### Accumulated Market Penalties and Fines

| | |
|---|---|
| (in thousands of Canadian dollars) | |
| Accumulated surplus – December 31, 2011 | 954 |
| Revenue from penalties and fines | 110 |
| Settlement dispute expenses | (153) |
| Customer education expenses | (176) |
| **Accumulated surplus – September 30, 2012** | **735** |

### Smart Metering Entity – Accumulated Deficit

| | |
|---|---|
| (in thousands of Canadian dollars) | |
| Accumulated deficit – December 31, 2011 | (58,624) |
| Smart meter program costs | (16,255) |
| **Accumulated surplus – September 30, 2012** | **(74,879)** |

### PSAB Transitional Items

| | |
|---|---|
| (in thousands of Canadian dollars) | |
| Accumulated deficit - December 31, 2011 | (65,876) |
| Recovery of PSAB transitional items | 4,650 |
| **Accumulated surplus – September 30, 2012** | **(61,226)** |

## 3) REGULATORY APPROVALS FOR 2012

The IESO submitted its proposed 2012-2014 Business Plan to the Minister for approval and as of November 19, 2012, the Minister has not issued his approval.

The IESO submitted an application for an interim fee for 2012 to the OEB and on December 20, 2011 the OEB approved the requested interim usage fee of $0.822/MWh.

## 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 nine months ended September 30** | **2012** | **2011** | **2012** | **2011** |
| **(in thousands of Canadian dollars)** | **$** | **$** | **$** | **$** |
| Labour | 57,873 | 58,369 | 1,833 | 1,615 |
| Computer services, support and equipment | 6,779 | 6,182 | 268 | 48 |
| Contract services and consultants | 4,707 | 4,161 | 10,675 | 7,343 |
| Telecommunications | 2,248 | 2,078 | 3 | 8 |
| Other costs | 5,085 | 5,419 | 3 | 3 |
| Amortization | 10,137 | 9,111 | 2,350 | 1,509 |
| Interest expense and financing charges | 665 | 483 | 1,123 | 731 |
| **Total Expense** | **87,494** | **85,803** | **16,255** | **11,257** |