## *Independent Electricity System Operator*
## *Statements of Financial Position*

| As at (in thousands of Canadian dollars) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | $ | $ |
| **FINANCIAL ASSETS** | | |
| Cash and cash equivalents | 16,042 | 6,863 |
| Accounts receivable | 16,314 | 16,833 |
| Long-term investments | 29,913 | 27,721 |
| **TOTAL FINANCIAL ASSETS** | **62,269** | **51,417** |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | 20,906 | 21,308 |
| Accrued interest on debt | 592 | 346 |
| Rebates due to market participants | 13,107 | 13,107 |
| Debt (Note 5) | 132,200 | 133,200 |
| Accrued pension liability | 37,095 | 41,600 |
| Accrued liability for employee future benefits other than pension | 72,948 | 69,255 |
| **TOTAL LIABILITIES** | **276,848** | **278,816** |
| **NET DEBT** | **(214,579)** | **(227,399)** |
| **NON-FINANCIAL ASSETS** | | |
| Net tangible capital assets | 87,977 | 87,607 |
| Prepaid expenses | 3,746 | 3,688 |
| **TOTAL NON-FINANCIAL ASSETS** | **91,723** | **91,295** |
| **ACCUMULATED SURPLUS / (DEFICIT) (Note 2)** | | |
| Accumulated deficit from operations | (126,121) | (137,651) |
| Accumulated remeasurement gains | 3,265 | 1,547 |
| **ACCUMULATED DEFICIT** | **(122,856)** | **(136,104)** |

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

| **For the nine months ended September 30 (in thousands of Canadian dollars)** | **2013 Budget** | **2013 Actual** | **2012 Actual** |
|---|---|---|---|
| **WHOLESALE MARKET OPERATIONS** | | | |
| System fees | 92,758 | 95,669 | 94,592 |
| Other revenue | 2,970 | 2,391 | 3,019 |
| Interest and investment income | 306 | 546 | 366 |
| **Wholesale market operation revenues** | **96,034** | **98,606** | **97,977** |
| Wholesale market operation expenses (Note 3) | 92,070 | 86,278 | 87,494 |
| **Wholesale market operations annual surplus** | **3,964** | **12,328** | **10,483** |
| **MARKET SANCTIONS AND PAYMENT ADJUSTMENTS** | | | |
| Market sanctions and payment adjustments | - | 2,507 | 110 |
| Customer education and market enforcement expenses (Note 3) | 224 | 2,636 | 329 |
| **Market sanctions and payment adjustments annual deficit** | **(224)** | **(129)** | **(219)** |
| **SMART METERING ENTITY** | | | |
| Smart metering charge | 18,836 | 18,840 | - |
| Smart metering expenses (Note 3) | 23,935 | 19,509 | 16,255 |
| **Smart metering entity annual deficit** | **(5,099)** | **(669)** | **(16,255)** |
| **ANNUAL SURPLUS / (DEFICIT)** | **(1,359)** | **11,530** | **(5,991)** |
| ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD | (137,651) | (137,651) | (118,172) |
| **ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD** | **(139,010)** | **(126,121)** | **(124,163)** |

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

| For the nine months ended September 30 (in thousands of Canadian dollars) | 2013 | 2012 |
|---|---|---|
| | Actual | Actual |
| | $ | $ |
| **ACCUMULATED REMEASUREMENT GAINS / (LOSSES), BEGINNING OF PERIOD** | **1,547** | **(374)** |
| **UNREALIZED GAINS / (LOSSES) ATTRIBUTABLE TO:** | | |
| Foreign exchange - derivatives | 17 | (28) |
| Foreign exchange - other | 139 | 97 |
| Portfolio investments | 1,597 | 1,336 |
| **AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:** | | |
| Foreign exchange - derivatives | - | (2) |
| Foreign exchange - other | (35) | (46) |
| Portfolio investments | - | - |
| **NET REMEASUREMENT GAINS FOR THE PERIOD** | **1,718** | **1,357** |
| **ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD** | **3,265** | **983** |

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## *Independent Electricity System Operator*
## *Statements of Change in Net Debt*

| For the nine months ended September 30 (in thousands of Canadian dollars) | 2013 | 2013 | 2012 |
|---|---|---|---|
| | Budget | Actual | Actual |
| | $ | $ | $ |
| **ANNUAL SURPLUS / (DEFICIT)** | **(1,359)** | **11,530** | **(5,991)** |
| **CHANGE IN NON-FINANCIAL ASSETS** | | | |
| Acquisition of tangible capital assets | (17,441) | (13,384) | (10,310) |
| Amortization of tangible capital assets | 13,466 | 13,014 | 12,487 |
| Change in prepaid expenses | (56) | (58) | (107) |
| **TOTAL CHANGE IN NON-FINANCIAL ASSETS** | **(4,031)** | **(428)** | **2,070** |
| **NET REMEASUREMENT GAINS FOR THE PERIOD** | 693 | 1,718 | 1,357 |
| **CHANGE IN NET DEBT** | **(4,697)** | **12,820** | **(2,564)** |
| **NET DEBT, BEGINNING OF PERIOD** | (227,399) | (227,399) | (209,551) |
| **NET DEBT, END OF PERIOD** | **(232,096)** | **(214,579)** | **(212,115)** |

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## *Independent Electricity System Operator*
## *Statements of Cash Flows*

| For the nine months ended September 30 (in thousands of Canadian dollars) | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| **OPERATING TRANSACTIONS** | | |
| Change in accumulated surplus / (deficit) | | |
| Surplus / (deficit) | 11,530 | (5,991) |
| | 11,530 | (5,991) |
| Changes in non-cash items | | |
| Amortization | 13,014 | 12,487 |
| Pension expense | 8,109 | 8,996 |
| Other employee future benefits expense | 5,208 | 4,873 |
| | 26,331 | 26,356 |
| Changes in non-cash balances related to operations: | | |
| Change in accounts payable and accrued liabilities | (2,541) | 1,688 |
| Change in accounts receivable | 519 | (211) |
| Change in prepaid expenses | (58) | (107) |
| | (2,080) | 1,370 |
| Other: | | |
| Contribution to pension fund | (12,614) | (20,998) |
| Payment of employee future benefits | (1,515) | (1,271) |
| | (14,129) | (22,269) |
| **Cash provided by (applied to) operating transactions** | **21,652** | **(534)** |
| **CAPITAL TRANSACTIONS** | | |
| Acquisition of tangible capital assets | (13,384) | (10,310) |
| Change in accounts payable & accrued liabilities | 2,385 | (975) |
| **Cash applied to capital transactions** | **(10,999)** | **(11,285)** |
| **INVESTING TRANSACTIONS** | | |
| Purchase of long-term investments | (595) | (1,197) |
| **Cash applied to investing transactions** | **(595)** | **(1,197)** |
| **FINANCING TRANSACTIONS** | | |
| Issue/(retire) debt | (1,000) | 8,000 |
| **Cash provided by (applied to) financing transactions** | **(1,000)** | **8,000** |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | **9,058** | **(5,016)** |
| **CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD** | 6,863 | 5,626 |
| Unrealized foreign exchange gains for the period | 121 | 22 |
| **CASH AND CASH EQUIVALENTS - END OF PERIOD** | **16,042** | **632** |

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## 1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2012 annual financial statements, except where noted below. The interim financial statements should be read in conjunction with the 2012 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, 2013 and December 31, 2012, the components of the IESO's Accumulated Deficit were as follows:

### Accumulated Deficit

| (in thousands of Canadian dollars) | As at September 30, 2013 | As at December 31, 2012 |
|---|---|---|
| Approved regulatory deferral account | 15,594 | 5,000 |
| Accumulated market sanctions and payment adjustments | 1,242 | 1,371 |
| Smart metering entity – accumulated deficit | (83,027) | (82,358) |
| PSAB transitional items | (56,665) | (60,117) |
| **Accumulated deficit – end of period** | **(122,856)** | **(136,104)** |

### Approved Regulatory Deferral Account

| (in thousands of Canadian dollars) | As at September 30, 2013 |
|---|---|
| Accumulated surplus – December 31, 2012 | 5,000 |
| Surplus from wholesale market operations | 12,328 |
| Increase in accumulated remeasurement gain | 1,718 |
| Recovery of PSAB transitional items | (3,452) |
| **Accumulated surplus – end of period** | **15,594** |

### Accumulated Market Sanctions and Payment Adjustments

| (in thousands of Canadian dollars) | As at September 30, 2013 |
|---|---|
| Accumulated surplus – December 31, 2012 | 1,371 |
| Market sanctions and payment adjustments | 2,507 |
| Customer education and market enforcement expenses | (2,636) |
| **Accumulated surplus – end of period** | **1,242** |

### Smart Metering Entity – Accumulated Deficit

| (in thousands of Canadian dollars) | As at September 30, 2013 |
|---|---|
| Accumulated deficit – December 31, 2012 | (82,358) |
| Smart metering charge | 18,840 |
| Smart metering expenses | (19,509) |
| **Accumulated deficit – end of period** | **(83,027)** |

### PSAB Transitional Items - Accumulated Deficit

| (in thousands of Canadian dollars) | As at September 30, 2013 |
|---|---|
| Accumulated deficit - December 31, 2012 | (60,117) |
| Recovery of PSAB transitional items | 3,452 |
| **Accumulated deficit – end of period** | **(56,665)** |

## 3) SEGMENT DISCLOSURES

Expenses by object for the nine months ended September 30, 2013 comprise of the following:

| | Wholesale market operations | Customer education and market enforcement expenses | Smart metering entity |
|---|---|---|---|
| **For the nine months ended September 30** | **2013** | **2013** | **2013** |
| **(in thousands of Canadian dollars)** | **$** | **$** | **$** |
| Labour | 56,212 | 1,814 | 1,866 |
| Computer services, support and equipment | 6,980 | 0 | 491 |
| Contract services and consultants | 4,419 | 818 | 13,112 |
| Telecommunications | 2,405 | 2 | 3 |
| Other costs | 5,407 | 2 | 1 |
| Amortization | 10,194 | 0 | 2,819 |
| Interest expense and financing charges | 661 | 0 | 1,217 |
| **Total Expense** | **86,278** | **2,636** | **19,509** |

Expenses by object for the nine months ended September 30, 2012 comprise of the following:

| | Wholesale market operations | Customer education and market enforcement expenses | Smart metering entity |
|---|---|---|---|
| **For the nine months ended September 30** | **2012** | **2012** | **2012** |
| **(in thousands of Canadian dollars)** | **$** | **$** | **$** |
| Labour | 57,873 | 125 | 1,833 |
| Computer services, support and equipment | 6,779 | 0 | 268 |
| Contract services and consultants | 4,553 | 203 | 10,675 |
| Telecommunications | 2,248 | 1 | 3 |
| Other costs | 5,238 | 0 | 3 |
| Amortization | 10,137 | 0 | 2,350 |
| Interest expense and financing charges | 666 | 0 | 1,123 |
| **Total Expense** | **87,494** | **329** | **16,255** |

## 4) REGULATORY APPROVALS

In November 2012, the IESO sought and received clarification from the OEB that the interim fee remains in effect pending the OEB review and approval of a new fee for 2013. In December 2012, the IESO submitted its 2013 Business Plan to the Minister for approval. The Minister's approval is pending as of September 30, 2013.

On March 23, 2012, the IESO made an application to the OEB for their approval of a smart metering charge. On March 28, 2013 the OEB ordered that the Smart Metering Entity charge of $0.788 per month be levied and collected by the Smart Metering Entity from all distributors for each of their residential and general service less than 50 kilowatt customers. This charge is intended to cover the costs of developing and operating the MDM/R to date and until October 31, 2018. This rate is effective May 1, 2013.

## 5) DEBT

### Note Payable to Ontario Electricity Finance Corporation (OEFC)

In May 2013, the IESO entered into a one-year note payable with the OEFC. The note payable is unsecured, bears interest at a fixed rate of 1.62% per annum and is repayable in full on April 30, 2014. Interest accrues daily and is payable in arrears semi-annually in April and November of each year. As at September 30, 2013, the note payable to the OEFC was $78.2 million (December 31, 2012 - $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 $110.0 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 0.50% per annum, with draws, repayments and interest payments due monthly. The credit facility expires April 30, 2014. As at September 30, 2013, $54.0 million was drawn on the credit facility (December 31, 2012 - $55.0 million).

### Retirement Compensation Arrangements

In July 2013, the IESO established a Retirement Compensation Arrangements Trust (RCA) to provide security for the IESO's obligations under the terms of the supplementary employee retirement plan for its employees. As at September 30, 2013, the IESO has provided the RCA trustee with a bank letter of credit of $26,831,000 the trustee can draw on if the IESO is in default under the terms of this plan.