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

| As at (in thousands of Canadian dollars) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | $ | $ |
| **FINANCIAL ASSETS** | | |
| Cash and cash equivalents | 17,678 | 9,569 |
| Accounts receivable | 15,658 | 17,592 |
| Long-term investments | 33,988 | 31,801 |
| **TOTAL FINANCIAL ASSETS** | **67,324** | **58,962** |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | 19,554 | 24,178 |
| Accrued interest on debt | 832 | 266 |
| Rebates due to market participants | - | 25,755 |
| Debt | 138,200 | 124,200 |
| Accrued pension liability | 33,714 | 35,139 |
| Accrued liability for employee future benefits other than pension | 78,484 | 74,069 |
| **TOTAL LIABILITIES** | **270,784** | **283,607** |
| **NET DEBT** | **(203,460)** | **(224,645)** |
| **NON-FINANCIAL ASSETS** | | |
| Net tangible capital assets | 89,504 | 91,636 |
| Prepaid expenses | 5,160 | 4,455 |
| **TOTAL NON-FINANCIAL ASSETS** | **94,664** | **96,091** |
| **ACCUMULATED SURPLUS / (DEFICIT)** | | |
| Accumulated deficit from operations (Note 2) | (115,419) | (132,698) |
| Accumulated remeasurement gains | 6,623 | 4,144 |
| **ACCUMULATED DEFICIT** | **(108,796)** | **(128,554)** |

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

| For the quarter ended September 30 (in thousands of Canadian dollars) | 2014 Budget | 2014 Actual | 2013 Actual |
|---|---|---|---|
| **WHOLESALE MARKET OPERATIONS** | | | |
| System fees | 94,733 | 96,926 | 95,669 |
| Other revenue | 2,447 | 2,757 | 2,391 |
| Interest and investment income | 329 | 1,261 | 546 |
| **Wholesale market operation revenues** | **97,509** | **100,944** | **98,606** |
| Wholesale market operation expenses | (94,713) | (96,042) | (86,278) |
| **Wholesale market operations year to date surplus** | **2,796** | **4,902** | **12,328** |
| **MARKET SANCTIONS AND PAYMENT ADJUSTMENTS** | | | |
| Market sanctions and payment adjustments | - | 1,581 | 2,507 |
| Customer education and market enforcement expenses | (228) | (2,919) | (2,636) |
| **Market sanctions and payment adjustments year to date deficit** | **(228)** | **(1,338)** | **(129)** |
| **SMART METERING ENTITY** | | | |
| Smart metering charge | 33,905 | 34,301 | 18,840 |
| Smart metering expenses | (24,891) | (20,586) | (19,509) |
| **Smart metering entity year to date surplus/(deficit)** | **9,014** | **13,715** | **(669)** |
| **YEAR TO DATE SURPLUS** | **11,582** | **17,279** | **11,530** |
| ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD | (132,698) | (132,698) | (137,651) |
| **ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD** | **(121,116)** | **(115,419)** | **(126,121)** |

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

| For the quarter ended September 30 (in thousands of Canadian dollars) | 2,014 | 2,013 |
|---|---|---|
| | Actual | Actual |
| | $ | $ |
| **ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD** | **4,144** | **1,547** |
| **UNREALIZED GAINS ATTRIBUTABLE TO:** | | |
| Foreign exchange - derivatives | 73 | 17 |
| Foreign exchange - other | 465 | 139 |
| Portfolio investments | 2,734 | 1,597 |
| **AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:** | | |
| Foreign exchange - other | (178) | (35) |
| Portfolio investments | (615) | - |
| **NET REMEASUREMENT GAINS FOR THE PERIOD** | **2,479** | **1,718** |
| **ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD** | **6,623** | **3,265** |

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

| For the quarter ended September 30 (in thousands of Canadian dollars) | 2014 Budget $ | 2014 Actual $ | 2013 Actual $ |
|---|---|---|---|
| **YEAR TO DATE SURPLUS** | **11,582** | **17,279** | **11,530** |
| **CHANGE IN NON-FINANCIAL ASSETS** | | | |
| Acquisition of tangible capital assets | (18,994) | (13,024) | (13,384) |
| Amortization of tangible capital assets | 16,206 | 15,156 | 13,014 |
| Change in prepaid expenses | 564 | (705) | (58) |
| **TOTAL CHANGE IN NON-FINANCIAL ASSETS** | **(2,224)** | **1,427** | **(428)** |
| **NET REMEASUREMENT GAINS FOR THE PERIOD** | 729 | 2,479 | 1,718 |
| **CHANGE IN NET DEBT** | **10,087** | **21,185** | **12,820** |
| **NET DEBT, BEGINNING OF PERIOD** | (224,645) | (224,645) | (227,399) |
| **NET DEBT, END OF PERIOD** | **(214,558)** | **(203,460)** | **(214,579)** |

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***Independent Electricity System Operator***
***Statements of Cash Flows***
***(Unaudited)***

| For the quarter ended September 30 (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **OPERATING TRANSACTIONS** | | |
| Surplus | 17,279 | 11,530 |
| | 17,279 | 11,530 |
| Changes in non-cash items | | |
| Amortization | 15,156 | 13,014 |
| Pension expense | 10,341 | 8,109 |
| Other employee future benefits expense | 6,124 | 5,208 |
| Change in fair value of long-term investments | (716) | - |
| | 30,905 | 26,331 |
| Changes in non-cash balances related to operations: | | |
| Change in accounts payable and accrued liabilities | (8) | (2,541) |
| Change in accounts receivable | 1,934 | 519 |
| Change in rebates due to market participants | (25,755) | - |
| Change in prepaid expenses | (705) | (58) |
| | (24,534) | (2,080) |
| Other: | | |
| Contribution to pension fund | (11,766) | (12,614) |
| Payment of employee future benefits | (1,709) | (1,515) |
| | (13,475) | (14,129) |
| **Cash provided by operating transactions** | **10,175** | **21,652** |
| **CAPITAL TRANSACTIONS** | | |
| Acquisition of tangible capital assets | (13,024) | (13,384) |
| Change in accounts payable & accrued liabilities | (4,050) | 2,385 |
| **Cash applied to capital transactions** | **(17,074)** | **(10,999)** |
| **INVESTING TRANSACTIONS** | | |
| Sale/(purchase) of long-term investments | 648 | (595) |
| **Cash provided by (applied to) investing transactions** | **648** | **(595)** |
| **FINANCING TRANSACTIONS** | | |
| Change in debt | 14,000 | (1,000) |
| **Cash provided by (applied to) financing transactions** | **14,000** | **(1,000)** |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | **7,749** | **9,058** |
| **CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD** | 9,569 | 6,863 |
| Unrealized foreign exchange gains for the period | 360 | 121 |
| **CASH AND CASH EQUIVALENTS - END OF PERIOD** | **17,678** | **16,042** |

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## 1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2013 annual financial statements, except where noted below. The interim financial statements have been prepared on a going concern basis and should be read in conjunction with the 2013 annual financial statements.

Bill 14, *Building Opportunity and Securing Our Future Act (Budget Measures), 2014* received Royal Assent on July 24, 2014. Schedule 7 of the Bill amends the *Electricity Act, 1998* by amalgamating the Independent Electricity System Operator ("IESO") and the Ontario Power Authority ("OPA") and by continuing them as the Independent Electricity System Operator ("IESO"). The transitional provision dealing with corporate matters, provides, among other things, that the predecessor IESO and the OPA cease to exist as entities separate from the IESO and all their rights, properties and assets become the rights, properties and assets of the IESO, as do all outstanding debts, liabilities and obligations of the predecessor IESO and the OPA. Schedule 7 of Bill 14 will come into force on January 1, 2015.

## 2) REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED DEFICIT

On May 22, 2014, the Ontario Energy Board (OEB) approved the IESO's proposal to retain $5,000 thousand of accumulated surplus and rebate the remaining accumulated surplus of $25,755 thousand to market participants.

As at September 30, 2014 and December 31, 2013, the components of the IESO's Accumulated Deficit were as follows:

### Accumulated Deficit

| (in thousands of Canadian dollars) | As at September 30, 2014 | As at December 31, 2013 |
|---|---|---|
| Approved regulatory deferral account | 9,193 | 5,000 |
| Accumulated market sanctions and payment adjustments | (632) | 706 |
| Smart metering entity – accumulated deficit | (65,030) | (78,745) |
| PSAB transitional items | (52,327) | (55,515) |
| **Accumulated deficit – end of period** | **(108,796)** | **(128,554)** |

### Approved Regulatory Deferral Account

| (in thousands of Canadian dollars) | As at September 30, 2014 |
|---|---|
| Accumulated surplus – December 31, 2013 | 5,000 |
| Revenues (before rebates due to market participants) | 100,944 |
| Wholesale market operation expenses | (96,042) |

| | |
|---|---|
| Change in accumulated remeasurement gains/(losses) | 2,479 |
| Recovery of PSAB transitional items | (3,188) |
| **Accumulated surplus – end of period** | **9,193** |

## Accumulated Market Sanctions and Payment Adjustments

| (in thousands of Canadian dollars) | As at September 30, 2014 |
|---|---|
| Accumulated surplus – December 31, 2013 | 706 |
| Market sanctions and payment adjustments | 1,581 |
| Customer education and market enforcement expenses | (2,919) |
| **Accumulated surplus – end of period** | **(632)** |

## Smart Metering Entity – Accumulated Deficit

| (in thousands of Canadian dollars) | As at September 30, 2014 |
|---|---|
| Accumulated deficit – December 31, 2013 | (78,745) |
| Smart metering charge | 34,301 |
| Smart metering expenses | (20,586) |
| **Accumulated deficit – end of period** | **(65,030)** |

## PSAB Transitional Items - Accumulated Deficit

| (in thousands of Canadian dollars) | As at September 30, 2014 |
|---|---|
| Accumulated deficit - December 31, 2013 | (55,515) |
| Recovery of PSAB transitional items | 3,188 |
| **Accumulated deficit – end of period** | **(52,327)** |

## 3) DEBT

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

In April 2014, the IESO entered into a three-year note payable with the OEFC. The note payable is unsecured, bears interest at a fixed rate of 2.046% per annum and is repayable in full on April 30, 2017. Interest accrues daily and is payable in arrears semi-annually in April and October of each year. As at September 30, 2014, the note payable to the OEFC was $90.0 million (December 31, 2013 - $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 $95.0 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, 2017. As at September 30, 2014, $48.2 million was drawn on the credit facility (December 31, 2013 - $46.0 million).

## SEGMENT DISCLOSURES

Expenses by object for the quarter ended September 30, 2014 comprise of the following:

| | **Wholesale market operations** | **Customer education and market enforcement expenses** | **Smart metering entity** |
|---|---|---|---|
| **For the quarter ended September 30** | **2014** | **2014** | **2014** |
| **(in thousands of Canadian dollars)** | **$** | **$** | **$** |
| Labour | 63,053 | 1,775 | 2,066 |
| Computer services, support and equipment | 7,433 | - | 2,134 |
| Contract services and consultants | 4,512 | 1,082 | 12,098 |
| Telecommunications | 2,218 | 1 | 16 |
| Other costs | 5,797 | 61 | 151 |
| Amortization | 12,039 | - | 3,117 |
| Interest expense and financing charges | 990 | - | 1,004 |

| | | | |
|---|---|---|---|
| **Total Expense** | **96,042** | **2,919** | **20,586** |

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

| | **Wholesale market operations** | **Customer education and market enforcement expenses** | **Smart metering entity** |
|---|---|---|---|
| **For the quarter 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 | - | 491 |
| Contract services and consultants | 4,419 | 818 | 13,112 |
| Telecommunications | 2,405 | 2 | 3 |
| Other costs | 5,407 | 2 | 1 |
| Amortization | 10,194 | - | 2,819 |
| Interest expense and financing charges | 661 | - | 1,217 |
| **Total Expense** | **58,297** | **2,636** | **19,509** |

## 4) CAPITAL DISCLOSURES

The IESO submitted its 2014-2016 Business Plan to the Minister of Energy for approval and on October 23, 2013, the Minister issued his approval.

On November 4, 2013, the IESO submitted an application for a new fee for 2014 to the OEB. On May 22, 2014, the OEB approved the new fee of $0.803/MWh effective January 1, 2014. The fee will be charged to all market participants based on the quantity of energy withdrawn from the market (including exports) and embedded generation.

Bill 14, *Building Opportunity and Securing Our Future Act (Budget Measures), 2014* received Royal Assent on July 24, 2014. Schedule 7 of the Bill amends the *Electricity Act, 1998* by amalgamating the Independent Electricity System Operator ("IESO") and the Ontario Power Authority ("OPA") and by continuing them as the Independent Electricity System Operator ("IESO"). The transitional provision dealing with corporate matters, provides, among other things, that the predecessor IESO and the OPA cease to exist as entities separate from the IESO and all their rights, properties and assets become the rights, properties and assets of the IESO, as do all outstanding debts, liabilities and obligations of the predecessor IESO and the OPA. Schedule 7 of Bill 14 will come into force on January 1, 2015.