Independent Electricity System Operator
Statement of Financial Position
Unaudited

As at (in thousands of Canadian dollars)	September 30, 2018	December 31, 2017
	$	$
FINANCIAL ASSETS		
Cash	21,553	64,214
Accounts receivable	154,454	41,429
Regulated assets	36,595	39,529
Long-term investments	45,912	45,276
Market accounts - assets (Note 2)	3,058,990	2,005,167
TOTAL FINANCIAL ASSETS	**3,317,504**	**2,195,615**
LIABILITIES		
Accounts payable and accrued liabilities (Note 3)	36,284	37,264
Accrued interest on debt	774	-
Rebates due to market participants (Note 4)	1,422	1,422
Debt (Note 5)	180,000	120,000
Accrued pension liability	26,437	29,229
Accrued liability for employee future benefits other than pension	100,985	96,216
Market accounts - liabilities (Note 2)	3,058,990	2,005,167
TOTAL LIABILITIES	**3,404,892**	**2,289,298**
NET DEBT	**(87,388)**	**(93,683)**
NON-FINANCIAL ASSETS		
Net tangible capital assets	103,899	100,794
Prepaid expenses	6,971	6,809
TOTAL NON-FINANCIAL ASSETS	**110,870**	**107,603**
ACCUMULATED SURPLUS		
Accumulated surplus from operations	12,052	3,436
Accumulated remeasurement gains	11,430	10,484
ACCUMULATED SURPLUS	**23,482**	**13,920**

Independent Electricity System Operator
Statement of Operations and Accumulated Surplus
Unaudited

For the quarter ended September 30 (in thousands of Canadian dollars)	2018 Budget	2018 Actual	2017 Actual
IESO CORE OPERATIONS	$	$	$
System fees	143,076	141,616	128,906
Other revenue	2,861	3,552	2,874
Interest and investment income	420	1,649	801
Core operation revenues	**146,357**	**146,817**	**132,581**
Core operation expenses (Note 6)	**(146,524)**	**(143,252)**	**(134,906)**
Core operations surplus/(deficit) before rebates	(167)	**3,565**	**(2,325)**
Rebates due to market participants	-	-	-
Core operations surplus/(deficit)	**(167)**	**3,565**	**(2,325)**
OTHER GOVERNMENT PROGRAMS			
Government transfer	**118,643**	175,228	-
Government transfer expenses (Note 6)	(118,643)	(175,228)	-
Government transfer surplus	**-**	**-**	**-**
SMART METERING ENTITY			
Smart metering charge	35,814	25,906	19,141
Smart metering expenses (Note 6)	(22,325)	(20,758)	(19,141)
Smart metering entity surplus	**13,489**	**5,148**	**-**
MARKET SANCTIONS AND PAYMENT ADJUSTMENTS			
Market sanctions and payment adjustments	5,500	4,179	2,286
Customer education and market enforcement expenses (Note 6)	(5,724)	(4,276)	(2,370)
Market sanctions and payment adjustments deficit	**(224)**	**(97)**	**(84)**
SURPLUS/(DEFICIT)	**13,098**	**8,616**	**(2,409)**
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	3,436	3,436	6,582
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	**16,534**	**12,052**	**4,173**

Independent Electricity System Operator

Statement of Remeasurement Gains and Losses

Unaudited

For the quarter ended September 30 (in thousands of Canadian dollars)	2018 Actual	2017 Actual
	$	$
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	**10,484**	**7,906**
UNREALIZED GAINS ATTRIBUTABLE TO:		
Foreign exchange - derivatives	122	-
Foreign exchange - other	897	737
Portfolio investments	(190)	1,332
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:		
Foreign exchange - other	(456)	(763)
Portfolio investments	573	-
NET REMEASUREMENT GAINS FOR THE PERIOD	**946**	**1,306**
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	**11,430**	**9,212**

Independent Electricity System Operator
Statement of Change in Net Debt
Unaudited

For the quarter ended September 30 (in thousands of Canadian dollars)	2018 Budget	2018 Actual	2017 Actual
	$	$	$
SURPLUS/(DEFICIT)	**13,098**	**8,616**	**(2,409)**
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(23,097)	(20,590)	(12,021)
Amortization of tangible capital assets	16,583	17,485	16,718
Change in prepaid expenses	-	(162)	(275)
TOTAL CHANGE IN NON-FINANCIAL ASSETS	**(6,514)**	**(3,267)**	**4,422**
NET REMEASUREMENT GAINS FOR THE PERIOD	-	946	1,306
CHANGE IN NET DEBT	**6,584**	**6,295**	**3,319**
NET DEBT, BEGINNING OF PERIOD	(93,683)	(93,683)	(97,173)
NET DEBT, END OF PERIOD	**(87,099)**	**(87,388)**	**(93,854)**

Independent Electricity System Operator
Statement of Cash Flows
Unaudited

For the quarter ended September 30 (in thousands of Canadian dollars)	**2018**	**2017**
	$	**$**
OPERATING TRANSACTIONS		
Change in accumulated surplus		
Surplus/(Deficit)	8,616	(2,409)
	8,616	(2,409)
Changes in non-cash items:		
Amortization	17,485	16,718
Pension expense	7,840	6,083
Other employee future benefits expense	6,766	6,451
	32,091	29,252
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	122	(4,571)
Change in accounts receivable	(113,025)	(7,576)
Change in rebates due to market participants	-	-
Change in regulated assets	2,934	19,252
Change in prepaid expenses	(162)	(275)
	(110,131)	6,830
Other:		
Contributions to pension fund	(10,633)	(11,083)
Payment of employee future benefits	(1,996)	(1,892)
	(12,629)	(12,975)
Cash applied/provided by operating transactions	**(82,053)**	**20,698**
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(20,590)	(12,021)
Change in accounts payable and accrued liabilities	(328)	(820)
Cash applied to capital transactions	**(20,918)**	**(12,841)**
INVESTING TRANSACTIONS		
Purchase of long-term investments	(253)	(816)
Cash applied to investing transactions	**(253)**	**(816)**
FINANCING TRANSACTIONS		
Issuance of debt	60,000	30,000
Cash provided by financing transactions	**60,000**	**30,000**
(DECREASE) / INCREASE IN CASH	**(43,224)**	**37,041**
CASH - BEGINNING OF PERIOD	64,214	33,005
Unrealized foreign exchange gains/(losses) for the period	563	(26)
CASH - END OF PERIOD	**21,553**	**70,020**

1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2017 IESO annual financial statements. The interim financial statements have been prepared on a going concern basis and should be read in conjunction with the 2017 IESO annual financial statements.

2) MARKET ACCOUNTS

As of January 1, 2016 the IESO changed its accounting policy regarding the recognition of market accounts assets and liabilities on the statement of financial position. The IESO-administered markets is a balancing system and includes amounts due from market participants (e.g. LDCs) and amounts due to market participants (e.g. generators). The net position of market accounts will settle to a $nil balance.

In 2017, the Government of Ontario announced its Fair Hydro Plan (FHP). Under this Plan, the IESO continues to settle the transactions between generators and distributors, but collects only a portion of the Global Adjustment from eligible customers, identified in the Ontario Fair Hydro Plan Act.

The FHP also shifted the cost of the Ontario Electricity Support Program (OESP) and most of the Rural or Remote Rate Protection (RRRP) program costs from ratepayers to taxpayer-funded programs.

The cumulative amount recorded in the Deferred Global Adjustment Variance account to the end of September 2018 was $3,188,413 thousand. To date a total of $1,788,000 thousand has been transferred to the Fair Hydro Trust. As a result, as at September 30, the Deferred Global Adjustment Variance account balance was $1,400,413 thousand, including interest and carrying charges.

In consideration of the implementation of the FHP, the OEB rescinded the OESP charge and determined to fund the program through the credit balance in the Ontario Electricity Support Program Variance account. As of September 30, the OESP variance account had been fully depleted.

On July 1, 2017 the OEB set a new rate for the RRRP program that has resulted in the IESO paying eligible markets participants more than rate collection permits. The balance in the RRRP variance account to September 30, 2018, was $17,736 thousand net of interest.

Components of the market accounts are as follows:	As at September 30, 2018	As at December 31, 2017
Cash, restricted for market accounts	486,538	454,174
Amounts due from market participants	1,043,221	1,253,417
Interest receivable	205	217
Regulatory assets/liabilities	1,418,149	187,203
HST receivable	110,877	110,156
Market debt	(1,192,031)	(13,252)
Amounts due to market participants	(1,698,425)	(1,855,206)
Other net liabilities	(168,534)	(136,709)
Closing balance	**-**	**-**

Regulatory assets/liabilities consist of the following:	As at September 30, 2018	As at December 31, 2017
Deferred Global Adjustment Variance	1,400,413	199,475
Regulated Price Plan Variance	-	-
Ontario Electricity Support Program Variance	-	(24,892)
Rural or Remote Rate Protection Variance	17,736	12,620
Closing balance	**1,418,149**	**187,203**

Market Debt

$475,000 Thousand Credit Facility with OFA

The IESO has an unsecured credit facility agreement with the Ontario Financing Authority (OFA), which will make available to the IESO an amount up to $475,000 thousand. Advances are payable at a variable interest rate equal to the Province of Ontario's cost of borrowing plus 0.25% per annum. The credit facility expires December 31, 2019. As at September 30, 2018, $17,064 thousand was outstanding (December 31, 2017 - $12,281 thousand).

$2,000,000 Thousand Credit Facility with OFA

During 2017, the IESO entered into a new unsecured credit facility agreement with the OFA, which will make available to the IESO an amount up to $2,000,000 thousand for the purpose of supporting the IESO's role in the Ontario FHP. Advances are payable at a variable interest rate equal to the Province of Ontario's cost of borrowing plus 0.25% per annum. The credit facility expires September 30, 2022. As at September 30, 2018, $1,174,966 thousand was outstanding (December 31, 2017 - $971 thousand).

$150,000 Thousand Credit Facility with TD Bank

The IESO has an unsecured credit facility agreement with TD Bank, which will make available to the IESO an amount up to $150,000 thousand. Advances are payable at a variable interest rate equal to that of banker's acceptance plus a margin per annum. The credit facility expires April 30, 2020. As at September 30, 2018, no amount was drawn on the credit facility (December 31,2017 - $nil).

3) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of Canadian dollars)	As at September 30, 2018	As at December 31, 2017
Relating to operations	35,063	35,743
Relating to tangible capital assets	1,221	1,521
Closing balance	**36,284**	**37,264**

4) REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED SURPLUS

As at September 30, 2018 and December 31, 2017, the components of the IESO's Accumulated Surplus were as follows:

Accumulated Surplus

(in thousands of Canadian dollars)	As at September 30, 2018	As at December 31, 2017
Approved regulatory deferral account	9,565	6,000
Smart Metering Entity	6,087	939
Accumulated market sanctions and payment adjustments	544	641
Remeasurement gains	7,286	6,340
Accumulated surplus – end of period	**23,482**	**13,920**

Regulatory Deferral Account

(in thousands of Canadian dollars)	As at September 30, 2018	As at December 31, 2017
Accumulated surplus – December 31, 2017	6,000	10,000
OEB decision and order	-	(4,000)
Revenues (before rebates due to market participants)	146,817	186,559
Rebates due to market participants	-	(1,422)
IESO operation expenses	(143,252)	(185,137)
Accumulated surplus – end of period	**9,565**	**6,000**

Smart Metering Entity - Accumulated Surplus

(in thousands of Canadian dollars)	As at September 30, 2018	As at December 31, 2017
Accumulated surplus – December 31, 2017	939	0
Smart Metering Entity Revenues	25,906	25,655
Smart Metering Entity Expenses	(20,758)	(24,716)
Accumulated surplus – end of period	**6,087**	**939**

Accumulated Market Sanctions and Payment Adjustments

(in thousands of Canadian dollars)	As at September 30, 2018	As at December 31, 2017
Accumulated surplus – December 31, 2017	641	726
Market sanctions and payment adjustments	4,179	3,176
Customer education and market enforcement expenses	(4,276)	(3,261)
Accumulated surplus – end of period	**544**	**641**

5) DEBT

Note Payable to Ontario Electricity Finance Corporation (OEFC)

In April 2017, the IESO entered into a note payable with the OEFC. The note payable is unsecured, bears interest at a fixed rate of 1.767% per annum and is repayable in full on June 30, 2020. Interest accrues daily and is payable in arrears semi-annually in June and December of each year. As at September 30, 2018, the note payable to the OEFC was $120,000 thousand (December 31, 2017 - $120,000 thousand).

Credit Facility

The IESO has an unsecured credit facility agreement with the OEFC, which will make available to the IESO an amount up to $160,000 thousand. 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 September 30, 2020. As at September 30, 2018, the credit facility payable to OEFC was $60,000 thousand (December 31, 2017 - $nil).

6) SEGMENT DISCLOSURES

Expenses by object for the quarter ended September 30, 2018 comprised of the following:

(in thousands of Canadian dollars)	**IESO operations**	**Customer education and market enforcement expenses**	**Smart metering entity**	**Other Government Programs**	Totals
	$	$	$	$	$
Compensation & benefits	89,817	2,907	1,990	1,340	96,054
Professional & consulting	13,019	775	11,523	173,559	198,876
Operating & administration	28,018	594	4,071	329	33,012
Amortization	14,353	-	3,132	-	17,485
Interest	1,849		42	-	1,891
Less: Recoveries	(3,804)	-	-	-	(3,804)
Total Expense	**143,252**	**4,276**	**20,758**	**175,228**	**343,514**

Expenses by object for the quarter ended September 30, 2017 comprised of the following:

(in thousands of Canadian dollars)	**IESO operations**	**Customer education and market enforcement expenses**	**Smart metering entity**	**Other Government Programs**	Totals
	$	$	$	$	$
Compensation & benefits	83,381	1,584	1,992	-	86,957
Professional & consulting	12,152	257	10,580	-	22,989
Operating & administration	26,737	529	3,313	-	30,579
Amortization	13,685	-	3,033	-	16,718
Interest	1,207	-	223	-	1,430
Less: Recoveries	(2,256)	-	-	-	(2,256)
Total Expense	**134,906**	**2,370**	**19,141**	**-**	**156,417**