Independent Electricity System Operator
Statement of Financial Position
Unaudited

DRAFT

As at (in thousands of Canadian dollars)	March 31, 2018	December 31, 2017
	$	$
FINANCIAL ASSETS		
Cash	53,706	64,214
Accounts receivable	68,852	41,429
Regulated assets	38,551	39,529
Long-term investments	45,180	45,276
Market accounts - assets (Note 2)	1,694,906	2,005,167
TOTAL FINANCIAL ASSETS	**1,901,195**	**2,195,615**
LIABILITIES		
Accounts payable and accrued liabilities (Note 3)	48,463	37,264
Accrued interest on debt	530	-
Rebates due to market participants (Note 4)	1,422	1,422
Debt (Note 5)	120,000	120,000
Accrued pension liability	28,166	29,229
Accrued liability for employee future benefits other than pension	97,618	96,216
Market accounts - liabilities (Note 2)	1,694,906	2,005,167
TOTAL LIABILITIES	**1,991,105**	**2,289,298**
NET DEBT	**(89,910)**	**(93,683)**
NON-FINANCIAL ASSETS		
Net tangible capital assets	106,182	100,794
Prepaid expenses	6,712	6,809
TOTAL NON-FINANCIAL ASSETS	**112,894**	**107,603**
ACCUMULATED SURPLUS		
Accumulated surplus from operations	12,284	3,436
Accumulated remeasurement gains	10,700	10,484
ACCUMULATED SURPLUS	**22,984**	**13,920**

Independent Electricity System Operator
Statement of Operations and Accumulated Surplus
Unaudited

DRAFT

For the quarter ended March 31 (in thousands of Canadian dollars)	2018 Budget	2018 Actual	2017 Actual
IESO CORE OPERATIONS	**$**	**$**	**$**
System fees	50,111	48,691	44,875
Other revenue	954	1,315	1,295
Interest and investment income	140	384	203
Core operation revenues	**51,205**	**50,390**	**46,373**
Core operation expenses (Note 6)	**(48,425)**	**(47,193)**	**(45,236)**
Core operations surplus	**2,780**	**3,197**	**1,137**
OTHER GOVERNMENT PROGRAMS			
Government transfer	24,435	26,251	-
Government transfer expenses (Note 6)	(24,435)	(26,251)	-
Government transfer surplus	**-**	**-**	**-**
SMART METERING ENTITY			
Smart metering charge	8,635	11,938	6,137
Smart metering expenses (Note 6)	(6,985)	(6,295)	(6,137)
Smart metering entity surplus	**1,650**	**5,643**	**-**
MARKET SANCTIONS AND PAYMENT ADJUSTMENTS			
Market sanctions and payment adjustments	1,736	1,139	664
Customer education and market enforcement expenses (Note 6)	(1,807)	(1,131)	(702)
Market sanctions and payment adjustments surplus/(deficit)	**(71)**	**8**	**(38)**
(DEFICIT)/SURPLUS	**4,359**	**8,848**	**1,099**
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	3,436	3,436	6,582
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	**7,795**	**12,284**	**7,681**

Independent Electricity System Operator
Statement of Remeasurement Gains and Losses
Unaudited

DRAFT

For the quarter ended March 31 (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	386	-
Foreign exchange - other	517	767
Portfolio investments	(231)	1,333
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:		
Foreign exchange - other	(456)	(763)
NET REMEASUREMENT GAINS FOR THE PERIOD	**216**	**1,337**
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	**10,700**	**9,243**

Independent Electricity System Operator
Statement of Change in Net Debt
Unaudited

DRAFT

For the quarter ended March 31 (in thousands of Canadian dollars)	2018 Budget	2018 Actual	2017 Actual
	$	$	$
SURPLUS	**4,359**	**8,848**	**1,099**
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(11,450)	(10,764)	(2,759)
Amortization of tangible capital assets	5,294	5,376	5,503
Change in prepaid expenses	-	97	1,654
TOTAL CHANGE IN NON-FINANCIAL ASSETS	**(6,156)**	**(5,291)**	**4,398**
NET REMEASUREMENT GAINS FOR THE PERIOD	-	216	1,337
CHANGE IN NET DEBT	**(1,797)**	**3,773**	**6,834**
NET DEBT, BEGINNING OF PERIOD	(93,683)	(93,683)	(97,173)
NET DEBT, END OF PERIOD	**(95,480)**	**(89,910)**	**(90,339)**

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Independent Electricity System Operator
Statement of Cash Flows
Unaudited
DRAFT

For the quarter ended March 31 (in thousands of Canadian dollars)	2018	2017
	$	$
OPERATING TRANSACTIONS		
Change in accumulated surplus		
Surplus	8,848	1,099
	8,848	1,099
Changes in non-cash items:		
Amortization	5,376	5,503
Pension expense	2,613	2,051
Other employee future benefits expense	2,255	2,221
	10,244	9,775
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	12,074	(1,118)
Change in accounts receivable	(27,423)	(7,028)
Change in regulated assets	978	6,662
Change in prepaid expenses	97	1,654
	(14,274)	170
Other:		
Contributions to pension fund	(3,676)	(4,957)
Payment of employee future benefits	(853)	(635)
	(4,529)	(5,592)
Cash provided by operating transactions	**289**	**5,452**
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(10,764)	(2,759)
Change in accounts payable and accrued liabilities	(345)	(635)
Cash applied to capital transactions	**(11,109)**	**(3,394)**
INVESTING TRANSACTIONS		
Purchase of long-term investments	(135)	(130)
Cash applied to investing transactions	**(135)**	**(130)**
FINANCING TRANSACTIONS		
Issuance of debt	-	-
Cash provided by financing transactions	**-**	**-**
(DECREASE) / INCREASE IN CASH	**(10,955)**	**1,928**
CASH - BEGINNING OF PERIOD	64,214	33,005
Unrealized foreign exchange gains for the period	447	4
CASH - END OF PERIOD	**53,706**	**34,937**

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 March 2018 was $1,788,841 thousand. To date a total of $1,639,000 thousand has been transferred to the Fair Hydro Trust. As a result, as at March 31, the Deferred Global Adjustment Variance account balance was $149,841 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 March 31, the OESP variance account had been depleted with the exception of $8 thousand of interest.

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 March 31, 2018, was $14,107 thousand net of interest.

Components of the market accounts are as follows:	As at March 31, 2018	As at December 31, 2017
Cash, restricted for market accounts	190,250	454,174
Amounts due from market participants	1,260,437	1,253,417
Interest receivable	223	217
Regulatory assets/liabilities	163,940	187,203
HST receivable	80,056	110,156
Market debt	(13,766)	(13,252)
Amounts due to market participants	(1,479,690)	(1,855,206)
Other net liabilities	(201,450)	(136,709)
Closing balance	-	-

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Regulatory assets/liabilities consist of the following:	As at March 31, 2018	As at December 31, 2017
Deferred Global Adjustment Variance	149,841	199,475.00
Ontario Electricity Support Program Variance	(8)	(24,892)
Rural or Remote Rate Protection Variance	14,107	12,620
Closing balance	**163,940**	**187,203**

3) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of Canadian dollars)	As at March 31, 2018	As at December 31, 2017
Relating to operations	47,259	35,743
Relating to tangible capital assets	1,204	1,521
Closing balance	**48,463**	**37,264**

4) REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED SURPLUS

As at March 31, 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 March 31, 2018	As at December 31, 2017
Approved regulatory deferral account	9,197	6,000
Smart Metering Entity	6,582	939
Accumulated market sanctions and payment adjustments	649	641
Remeasurement gains	6,556	6,340
Accumulated surplus – end of period	**22,984**	**13,920**

Regulatory Deferral Account

(in thousands of Canadian dollars)	As at March 31, 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)	50,390	186,559
Rebates due to market participants	-	(1,422)
IESO operation expenses	(47,193)	(185,137)
Accumulated surplus – end of period	**9,197**	**6,000**

Smart Metering Entity - Accumulated Surplus

(in thousands of Canadian dollars)	As at March 31, 2018	As at December 31, 2017
Accumulated surplus – December 31, 2017	939	0
Smart Metering Entity Revenues	11,938	25,655
Smart Metering Entity Expenses	(6,295)	(24,716)
Accumulated surplus – end of period	**6,582**	**939**

Accumulated Market Sanctions and Payment Adjustments

(in thousands of Canadian dollars)	As at March 31, 2018	As at December 31, 2017
Accumulated surplus – December 31, 2017	641	726
Market sanctions and payment adjustments	1,139	3,176
Customer education and market enforcement expenses	(1,131)	(3,261)
Accumulated surplus – end of period	**649**	**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 March 31, 2018, the note payable to the OEFC was $120 million (December 31, 2017 - $120 million).

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Credit Facility

The IESO has an unsecured credit facility agreement with the OEFC, which will make available to the IESO an amount up to $160.0 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 June 30, 2020. As at March 31, 2018, no funds were drawn on the credit facility (December 31, 2017 - $nil).

6) SEGMENT DISCLOSURES

Expenses by object for the quarter ended March 31, 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	30,190	722	600	507	32,019
Professional & consulting	3,876	240	3,454	25,619	33,189
Operating & administration	9,203	169	1,369	125	10,866
Amortization	4,515	-	861	-	5,376
Interest	507		11	-	517
Less: Recoveries	(1,098)	-	-	-	(1,098)
Total Expense	**47,193**	**1,131**	**6,295**	**26,251**	**80,870**

Expenses by object for the quarter ended March 31, 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	28,675	465	615	-	29,755
Professional & consulting	3,006	65	3,534	-	6,605
Operating & administration	8,988	172	909	-	10,069
Amortization	4,519	-	984	-	5,503
Interest	397	-	95	-	492
Less: Recoveries	(349)	-	-	-	(349)
Total Expense	**45,236**	**702**	**6,137**	**0**	**52,075**