Independent Electricity System Operator
Statement of Financial Position
Unaudited

As at (in thousands of Canadian dollars)	June 30, 2018	December 31, 2017
	$	$
FINANCIAL ASSETS		
Cash	30,938	64,214
Accounts receivable	77,998	41,429
Regulated assets	37,573	39,529
Long-term investments	45,819	45,276
Market accounts - assets (Note 2)	2,225,214	2,005,167
TOTAL FINANCIAL ASSETS	**2,417,542**	**2,195,615**
LIABILITIES		
Accounts payable and accrued liabilities (Note 3)	35,920	37,264
Accrued interest on debt	1,060	-
Rebates due to market participants (Note 4)	1,422	1,422
Debt (Note 5)	120,000	120,000
Accrued pension liability	27,401	29,229
Accrued liability for employee future benefits other than pension	99,371	96,216
Market accounts - liabilities (Note 2)	2,225,214	2,005,167
TOTAL LIABILITIES	**2,510,388**	**2,289,298**
NET DEBT	**(92,846)**	**(93,683)**
NON-FINANCIAL ASSETS		
Net tangible capital assets	105,190	100,794
Prepaid expenses	8,336	6,809
TOTAL NON-FINANCIAL ASSETS	**113,526**	**107,603**
ACCUMULATED SURPLUS		
Accumulated surplus from operations	9,070	3,436
Accumulated remeasurement gains	11,610	10,484
ACCUMULATED SURPLUS	**20,680**	**13,920**

Independent Electricity System Operator
Statement of Operations and Accumulated Surplus
Unaudited

For the quarter ended June 30 (in thousands of Canadian dollars)	2018 Budget	2018 Actual	2017 Actual
IESO CORE OPERATIONS	**$**	**$**	**$**
System fees	95,492	92,786	84,994
Other revenue	1,908	2,302	2,043
Interest and investment income	280	1,306	467
Core operation revenues	**97,680**	**96,394**	**87,504**
Core operation expenses (Note 6)	**(96,674)**	**(94,255)**	**(89,721)**
Core operations surplus/(deficit) before rebates	1,006	**2,139**	**(2,217)**
Rebates due to market participants	-	-	-
Core operations surplus	**1,006**	**2,139**	**(2,217)**
OTHER GOVERNMENT PROGRAMS			
Government transfer	**71,539**	61,739	-
Government transfer expenses (Note 6)	(71,539)	(61,739)	-
Government transfer surplus	**-**	**-**	**-**
SMART METERING ENTITY			
Smart metering charge	17,271	17,271	12,756
Smart metering expenses (Note 6)	(14,584)	(13,709)	(12,756)
Smart metering entity surplus	**2,687**	**3,562**	**-**
MARKET SANCTIONS AND PAYMENT ADJUSTMENTS			
Market sanctions and payment adjustments	3,709	2,600	1,504
Customer education and market enforcement expenses (Note 6)	(3,858)	(2,667)	(1,586)
Market sanctions and payment adjustments surplus/(deficit)	**(149)**	**(67)**	**(82)**
SURPLUS/(DEFICIT)	**3,544**	**5,634**	**(2,299)**
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	3,436	3,436	6,582
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	**6,980**	**9,070**	**4,283**

Independent Electricity System Operator
Statement of Remeasurement Gains and Losses
Unaudited

For the quarter ended June 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	380	-
Foreign exchange - other	688	738
Portfolio investments	(59)	1,971
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:		
Foreign exchange - other	(456)	(763)
Portfolio investments	573	-
NET REMEASUREMENT GAINS FOR THE PERIOD	**1,126**	**1,946**
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	**11,610**	**9,852**

Independent Electricity System Operator
Statement of Change in Net Debt
Unaudited

For the quarter ended June 30 (in thousands of Canadian dollars)	2018 Budget	2018 Actual	2017 Actual
	$	$	$
SURPLUS/(DEFICIT)	**3,544**	**5,634**	**(2,299)**
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(19,688)	(16,119)	(9,737)
Amortization of tangible capital assets	10,873	11,723	11,130
Change in prepaid expenses	-	(1,527)	(689)
TOTAL CHANGE IN NON-FINANCIAL ASSETS	**(8,815)**	**(5,923)**	**704**
NET REMEASUREMENT GAINS FOR THE PERIOD	-	1,126	1,946
CHANGE IN NET DEBT	**(5,271)**	**837**	**351**
NET DEBT, BEGINNING OF PERIOD	(93,683)	(93,683)	(97,173)
NET DEBT, END OF PERIOD	**(98,954)**	**(92,846)**	**(96,822)**

Independent Electricity System Operator
Statement of Cash Flows
Unaudited

For the quarter ended June 30 (in thousands of Canadian dollars)	2018	2017
	$	$
OPERATING TRANSACTIONS		
Change in accumulated surplus		
Surplus/(Deficit)	5,634	(2,299)
	5,634	(2,299)
Changes in non-cash items:		
Amortization	11,723	11,130
Pension expense	5,227	4,055
Other employee future benefits expense	4,511	4,300
	21,461	19,485
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(360)	(4,991)
Change in accounts receivable	(36,569)	(6,910)
Change in rebates due to market participants	-	-
Change in regulated assets	1,956	12,840
Change in prepaid expenses	(1,527)	(689)
	(36,500)	250
Other:		
Contributions to pension fund	(7,055)	(8,752)
Payment of employee future benefits	(1,356)	(1,252)
	(8,411)	(10,004)
Cash applied/provided by operating transactions	**(17,816)**	**7,432**
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(16,119)	(9,737)
Change in accounts payable and accrued liabilities	76	378
Cash applied to capital transactions	**(16,043)**	**(9,359)**
INVESTING TRANSACTIONS		
Purchase of long-term investments	(29)	(668)
Cash applied to investing transactions	**(29)**	**(668)**
FINANCING TRANSACTIONS		
Issuance of debt	-	30,000
Cash provided by financing transactions	**-**	**30,000**
(DECREASE) / INCREASE IN CASH	**(33,888)**	**27,405**
CASH - BEGINNING OF PERIOD	64,214	33,005
Unrealized foreign exchange gains/(losses) for the period	612	(25)
CASH - END OF PERIOD	**30,938**	**60,385**

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 June 2018 was $2,557,769 thousand. To date a total of $1,788,000 thousand has been transferred to the Fair Hydro Trust. As a result, as at June 30, the Deferred Global Adjustment Variance account balance was $769,769 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 June 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 June 30, 2018, was $16,579 thousand net of interest.

Components of the market accounts are as follows:	As at June 30, 2018	As at December 31, 2017
Cash, restricted for market accounts	(2,699)	454,174
Amounts due from market participants	1,292,752	1,253,417
Interest receivable	132	217
Regulatory assets/liabilities	786,348	187,203
HST receivable	148,681	110,156
Market debt	(582,378)	(13,252)
Amounts due to market participants	(1,486,976)	(1,855,206)
Other net liabilities	(155,860)	(136,709)
Closing balance	-	-

Regulatory assets/liabilities consist of the following:	As at June 30, 2018	As at December 31, 2017
Deferred Global Adjustment Variance	769,769	199,475
Ontario Electricity Support Program Variance	-	(24,892)
Rural or Remote Rate Protection Variance	16,579	12,620
Closing balance	**786,348**	**187,203**

Market Debt

$475 Million 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 June 30, 2018, $15,843 thousand was outstanding (December 31, 2017 - $12,281 thousand).

$2 Billion 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 June 30, 2018, $566,535 thousand was outstanding (December 31, 2017 - $971 thousand).

$150 Million 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 June 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 June 30, 2018	As at December 31, 2017
Relating to operations	34,294	35,743
Relating to tangible capital assets	1,626	1,521
Closing balance	**35,920**	**37,264**

4) REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED SURPLUS

As at June 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 June 30, 2018	As at December 31, 2017
Approved regulatory deferral account	8,139	6,000
Smart Metering Entity	4,501	939
Accumulated market sanctions and payment adjustments	574	641
Remeasurement gains	7,466	6,340
Accumulated surplus – end of period	**20,680**	**13,920**

Regulatory Deferral Account

(in thousands of Canadian dollars)	As at June 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)	96,394	186,559
Rebates due to market participants	-	(1,422)
IESO operation expenses	(94,255)	(185,137)
Accumulated surplus – end of period	**8,139**	**6,000**

Smart Metering Entity - Accumulated Surplus

(in thousands of Canadian dollars)	As at June 30, 2018	As at December 31, 2017
Accumulated surplus – December 31, 2017	939	0
Smart Metering Entity Revenues	17,271	25,655
Smart Metering Entity Expenses	(13,709)	(24,716)
Accumulated surplus – end of period	**4,501**	**939**

Accumulated Market Sanctions and Payment Adjustments

(in thousands of Canadian dollars)	As at June 30, 2018	As at December 31, 2017
Accumulated surplus – December 31, 2017	641	726
Market sanctions and payment adjustments	2,600	3,176
Customer education and market enforcement expenses	(2,667)	(3,261)
Accumulated surplus – end of period	**574**	**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 June 30, 2018, the note payable to the OEFC was $120 million (December 31, 2017 - $120 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 $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 June 30, 2018, no funds were drawn on the credit facility (December 31, 2017 - $nil).

6) SEGMENT DISCLOSURES

Expenses by object for the quarter ended June 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	61,088	1,853	1,384	1,095	65,420
Professional & consulting	6,486	409	7,593	60,376	74,864
Operating & administration	18,599	405	2,704	268	21,976
Amortization	9,722	-	2,001	-	11,723
Interest	1,110		27	-	1,137
Less: Recoveries	(2,751)	-	-	-	(2,751)
Total Expense	**94,255**	**2,667**	**13,709**	**61,739**	**172,370**

Expenses by object for the quarter ended June 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	56,428	1,113	1,368	-	58,909
Professional & consulting	6,606	119	6,997	-	13,722
Operating & administration	17,905	354	2,202	-	20,461
Amortization	9,117	-	2,013	-	11,130
Interest	851	-	176	-	1,027
Less: Recoveries	(1,186)	-	-	-	(1,186)
Total Expense	**89,721**	**1,586**	**12,756**	**-**	**104,063**