# *Independent Electricity System Operator*
## *Statement of Financial Position*
### *Unaudited*

| 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*

| 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*

| 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*

| 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*

| 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** |

**Independent Electricity System Operator**
Notes to Financial Statements (unaudited)

March 31, 2018

### 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 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 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 | 1,260,429 | 1,253,417 |
| Interest receivable | 223 | 217 |
| Regulatory assets/liabilities | 163,948 | 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 |
| Ontario Electricity Support Program Variance | - | (24,892) |
| Rural or Remote Rate Protection Variance | 14,107 | 12,620 |
| **Closing balance** | **163,948** | **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).

**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** |