Independent Electricity System Operator
Statement of Financial Position
Unaudited

As at (in thousands of Canadian dollars)	September 30, 2017	December 31, 2016
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	70,020	33,005
Accounts receivable	38,679	31,103
Regulated assets	45,812	65,064
Long-term investments	42,503	40,355
Market accounts - assets (Note 2)	1,973,371	1,636,201
TOTAL FINANCIAL ASSETS	**2,170,385**	**1,805,728**
LIABILITIES		
Accounts payable and accrued liabilities (Note 3)	33,357	38,963
Accrued interest on debt	530	315
Rebates due to market participants (Note 4)	12,551	12,551
Debt (Note 5)	120,000	90,000
Accrued pension liability	29,620	34,620
Accrued liability for employee future benefits other than pension	94,810	90,251
Market accounts - liabilities (Note 2)	1,973,371	1,636,201
TOTAL LIABILITIES	**2,264,239**	**1,902,901**
NET DEBT	**(93,854)**	**(97,173)**
NON-FINANCIAL ASSETS		
Net tangible capital assets	100,350	105,047
Prepaid expenses	6,889	6,614
TOTAL NON-FINANCIAL ASSETS	**107,239**	**111,661**
ACCUMULATED SURPLUS		
Accumulated surplus from operations (Note 4)	4,173	6,582
Accumulated remeasurement gains	9,212	7,906
ACCUMULATED SURPLUS	**13,385**	**14,488**

Independent Electricity System Operator
Statement of Operations and Accumulated Surplus
Unaudited

For the nine months ended September 30 (in thousands of Canadian dollars)	2017 Budget	2017 Actual	2016 Actual
IESO CORE OPERATIONS	$	$	$
System fees	139,724	128,906	136,070
Other revenue	574	2,874	1,886
Interest and investment income	1,575	801	862
Core operation revenues	**141,873**	**132,581**	**138,818**
Compensation and benefits	(84,382)	(81,792)	(78,257)
Professional and consulting	(13,277)	(12,152)	(10,668)
Operating and administration	(27,060)	(26,070)	(24,512)
Core operating expenses	**(124,719)**	**(120,014)**	**(113,437)**
Amortization	(13,894)	(13,685)	(14,827)
Interest	(555)	(1,207)	(898)
Core expenses	**(139,168)**	**(134,906)**	**(129,162)**
Core operations surplus/(deficit) before rebates	2,705	**(2,325)**	**9,656**
Rebates due to market participants	-	-	-
Core operations surplus/(deficit)	**2,705**	**(2,325)**	**9,656**
MARKET SANCTIONS AND PAYMENT ADJUSTMENTS			
Market sanctions and payment adjustments	**3,040**	**2,286**	**2,557**
Compensation and benefits	(2,004)	(1,584)	(1,571)
Professional and consulting	(1,137)	(257)	(537)
Operating and administration	(114)	(529)	(535)
Customer education and market enforcement expenses	(3,255)	(2,370)	(2,643)
Market sanctions and payment adjustments deficit	**(215)**	**(84)**	**(86)**
SMART METERING ENTITY			
Smart metering charge	**23,282**	**19,141**	**20,290**
Compensation and benefits	(2,591)	(1,992)	(1,870)
Professional and consulting	(12,844)	(10,580)	(10,771)
Operating and administration	(2,644)	(3,313)	(4,463)
Smart metering operating expenses	**(18,079)**	**(15,885)**	**(17,104)**
Amortization	(3,416)	(3,033)	(2,733)
Interest	(1,787)	(223)	(453)
Smart metering expenses	(23,282)	(19,141)	(20,290)
Smart metering entity surplus/(deficit)	-	-	-
SURPLUS/(DEFICIT)	**2,490**	**(2,409)**	**9,570**
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	6,582	6,582	6,348
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	**9,072**	**4,173**	**15,918**

Independent Electricity System Operator
Statement of Remeasurement Gains and Losses
Unaudited

For the nine months ended September 30 (in thousands of Canadian dollars)	2017 Actual	2016 Actual
	$	$
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	**7,906**	**7,658**
UNREALIZED GAINS ATTRIBUTABLE TO:		
Foreign exchange - other	737	478
Portfolio investments	1,332	1,747
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:		
Foreign exchange - other	(763)	(515)
NET REMEASUREMENT GAINS FOR THE PERIOD	**1,306**	**1,710**
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	**9,212**	**9,368**

Independent Electricity System Operator
Statement of Change in Net Debt
Unaudited

For the nine months ended September 30 (in thousands of Canadian dollars)	2017 Budget	2017 Actual	2016 Actual
	$	$	$
SURPLUS/(DEFICIT)	**2,490**	**(2,409)**	**9,570**
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(19,375)	(12,021)	(20,670)
Amortization of tangible capital assets	17,310	16,718	17,560
Change in prepaid expenses	-	(275)	(636)
TOTAL CHANGE IN NON-FINANCIAL ASSETS	**(2,065)**	**4,422**	**(3,746)**
NET REMEASUREMENT GAINS FOR THE PERIOD	-	1,306	1,710
CHANGE IN NET DEBT	**425**	**3,319**	**7,534**
NET DEBT, BEGINNING OF PERIOD	(97,173)	(97,173)	(95,907)
NET DEBT, END OF PERIOD	**(96,748)**	**(93,854)**	**(88,373)**

Independent Electricity System Operator
Statement of Cash Flows
Unaudited

For the nine months ended September 30 (in thousands of Canadian dollars)	2017	2016
	$	$
OPERATING TRANSACTIONS		
Change in accumulated surplus/(deficit)		
Surplus/(Deficit)	(2,409)	9,570
	(2,409)	9,570
Changes in non-cash items		
Amortization	16,718	17,560
Pension expense	6,083	8,614
Other employee future benefits expense	6,451	6,095
	29,252	32,269
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(4,571)	(13,306)
Change in accounts receivable	(7,576)	(6,348)
Change in rebates due to market participants	-	4,474
Change in regulated assets	19,252	17,632
Change in prepaid expenses	(275)	(636)
	6,830	1,816
Other:		
Contribution to pension fund	(11,083)	(10,715)
Payment of employee future benefits	(1,892)	(1,783)
	(12,975)	(12,498)
Cash provided by operating transactions	**20,697**	**31,157**
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(12,021)	(20,670)
Change in accounts payable and accrued liabilities	(820)	(1,187)
Cash applied to capital transactions	**(12,841)**	**(21,857)**
INVESTING TRANSACTIONS		
Purchase of long-term investments	(816)	(1,142)
Cash applied to investing transactions	**(816)**	**(1,142)**
FINANCING TRANSACTIONS		
Issue debt	30,000	-
Cash applied to financing transactions	**30,000**	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**37,041**	**8,158**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	33,005	14,715
Unrealized foreign exchange (losses) for the period	(26)	(37)
CASH AND CASH EQUIVALENTS - END OF PERIOD	**70,020**	**22,836**

1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2016 IESO annual financial statements.

The interim financial statements have been prepared on a going concern basis and should be read in conjunction with the 2016 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.

In March 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.

As at September 30, Deferred Global Adjustment Assets were $818,174 thousand. This balance includes the variance created by the partial implementation of the FHP prior to the effective date of July 1, 2017. The partial reduction granted from May 1 to June 30, resulted in a variance of $239,452 thousand. During the third quarter the market under collected $577,379 thousand from customers. In addition, interest payable on the account decreased by $800 thousand.

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.

Prior to May 1 the balance of OESP funds collected and paid through the market was -$116,096 thousand. With the implementation of the FHP on May 1, 2017, only payments to OESP eligible customers are currently being made and the balance at September 30, 2017 was -$62,312 thousand, net of interest.

A new rate for the RRRP program under the FHP was effective July 1, 2017. The balance in the RRRP variance account to June 30, 2017 was $6,626 thousand. The new rate has resulted in an under collection of $4,017 thousand (net of interest) in the third quarter for the RRRP settled through the market accounts, resulting in balance in the variance of $10,643 thousand as at September 30, 2017

Components of the market accounts are as follows:	As at September 30, 2017	As at December 31, 2016
Cash, restricted for market accounts	215,476	244,755
Amounts due from market participants	939,095	1,391,260
Interest receivable	126	186
Deferred Global Adjustment Assets	818,174	-
Debt	(614,805)	(150,501)
HST receivable	131,000	25,531
Amounts due to market participants	(1,241,849)	(1,387,971)
Provision for future Ontario Electricity Support Program activity	(62,312)	(92,443)
Provision for future Rural or Remote Rate Protection activity	10,643	(4,672)
Other liabilities	(195,548)	(26,145)
Closing balance	-	-

3) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of Canadian dollars)	As at September 30, 2017	As at December 31, 2016
Relating to operations	30,844	35,630
Relating to tangible capital assets	2,513	3,333
Closing balance	**33,357**	**38,963**

4) REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED SURPLUS

As at September 30, 2017 and December 31, 2016, the components of the IESO's Accumulated Surplus were as follows:

Accumulated Surplus

(in thousands of Canadian dollars)	As at September 30, 2017	As at December 31, 2016
Approved regulatory deferral account	7,675	10,000
Accumulated market sanctions and payment adjustments	642	726
Remeasurement gains	5,068	3,762
Accumulated surplus – end of period	**13,385**	**14,488**

Regulatory Deferral Account

(in thousands of Canadian dollars)	As at September 30, 2017
Accumulated surplus – December 31, 2016	10,000
Revenues (before rebates due to market participants)	132,581
IESO operation expenses	(134,906)
Accumulated surplus – end of period	**7,675**

Accumulated Market Sanctions and Payment Adjustments

(in thousands of Canadian dollars)	As at June 30, 2017
Accumulated surplus – December 31, 2016	726
Market sanctions and payment adjustments	2,286
Customer education and market enforcement expenses	(2,370)
Accumulated surplus – end of period	**642**

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, 2017, the note payable to the OEFC was $120 million (December 31, 2016 - $90 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 September 30, 2017, no funds were drawn on the credit facility (December 31, 2016 - $nil).