Notes to Financial Statements

1. NATURE OF OPERATIONS

a) Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable, corporation established pursuant to Part II of the Electricity Act, 1998. The predecessor Independent Electricity System Operator and the Ontario Power Authority (OPA) were amalgamated by statute effective on January 1, 2015 and continued as the Independent Electricity System Operator. As set out in the Electricity Act, 1998, the IESO operates pursuant to a licence granted by the Ontario Energy Board (OEB). The amalgamation was effected pursuant to Bill 14, Building Opportunity and Securing Our Future Act (Budget Measures), 2014, which received Royal Assent on July 24, 2014. Schedule 7 of the Bill amended the Electricity Act, 1998 by amalgamating the two predecessor corporations and by continuing them as the Independent Electricity System Operator. The transitional provision, dealing with corporate matters, provides, among other things, that the predecessor IESO and OPA cease to exist as entities separate from the amalgamated IESO and all their rights, properties and assets become the rights, properties and assets of the amalgamated IESO, as do all outstanding debts, liabilities and obligations of the predecessor IESO and OPA. Schedule 7 of Bill 14 came into force on January 1, 2015.The objects of the IESO as contained in the Electricity Act, 1998 and Ontario Regulation 288/14, are as follows:

- to exercise the powers and perform the duties assigned to it under this Act, the regulations, directions, the market rules and its licence;
- to enter into agreements with transmitters to give it authority to direct the operation of their transmission systems;
- to direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of this Act;
- to participate in the development by any standards authority of criteria and standards relating to the reliability of the integrated power system;
- to establish and enforce criteria and standards relating to the reliability of the integrated power system;
- to work with the responsible authorities outside of Ontario to co-ordinate the IESO's activities with the activities of those authorities;
- to operate the IESO-administered markets to promote the purposes of this Act;
- to engage in activities related to contracting for the procurement of electricity supply, electricity capacity and conservation resources;
- to engage in activities related to settlements, payments under a contract entered into under the authority of this Act and payments provided for under this Act or the Ontario Energy Board Act, 1998;
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario;
- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the short term, medium term and long term;
- to conduct independent planning for electricity generation, demand management, conservation and transmission;
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources;
- to engage in activities in support of system-wide goals for the amount of electricity to be produced from different energy sources;
- to engage in activities that facilitate load management;
- to engage in activities that promote electricity conservation and the efficient use of electricity;
- to assist the Board by facilitating stability in rates for certain types of consumers;
- to collect and make public information relating to the short term, medium term and long term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs; and

- to engage in such other objects as may be prescribed by the regulations.

b) The IESO was designated the Smart Metering Entity by Ontario Regulation 393/07 under *the Electricity Act, 1998* on March 28, 2007. The regulation came into effect on July 26, 2007.

The objects of the Smart Metering Entity (SME), as contained in the *Electricity Act, 1998,* are as follows:

- to plan and implement and, on an ongoing basis, oversee, administer and deliver any part of the smart metering initiative as required by regulation under this or any Act or directive made pursuant to sections 28.3 or 28.4 of the *Ontario Energy Board Act, 1998*, and, if so authorized, to have the exclusive authority to conduct these activities;
- to collect and manage and to facilitate the collection and management of information and data and to store the information and data related to the metering of consumers' consumption or use of electricity in Ontario, including data collected from distributors and, if so authorized, to have the exclusive authority to collect, manage and store the data;
- to establish, to own or lease and to operate one or more databases to facilitate collecting, managing, storing and retrieving smart metering data;
- to provide and promote non-discriminatory access, on appropriate terms and subject to any conditions in its licence relating to the protection of privacy, by distributors, retailers and other persons,

    i. to the information and data referred to above, and

    ii. to the telecommunication system that permits the Smart Metering Entity to transfer data about the consumption or use of electricity to and from its databases, including access to its telecommunication equipment, systems and technology and associated equipment, systems and technologies

- to own or to lease and to operate equipment, systems and technology, including telecommunication equipment, systems and technology that permit the Smart Metering Entity to transfer data about the consumption or use of electricity to and from its databases, including owning, leasing or operating such equipment, systems and technology and associated equipment, systems and technologies, directly or indirectly, including through one or more subsidiaries, if the Smart Metering Entity is a corporation;
- to engage in such competitive procurement activities as are necessary to fulfill its objects or business activities;
- to procure, as and when necessary, meters, metering equipment, systems and technology and any associated equipment, systems and technologies on behalf of distributors, as an agent or otherwise, directly or indirectly, including through one or more subsidiaries, if the Smart Metering Entity is a corporation;
- to recover, through just and reasonable rates, the costs and an appropriate return approved by the Ontario Energy Board associated with the conduct of its activities; and
- to undertake any other objects that are prescribed by associated regulation.

c) The IESO is required to submit its proposed expenditures, revenue requirements, and fees for the coming year to the OEB for review and approval. The submission may be made only with the approval or deemed approval of the IESO business plan by the Minister of Energy (Minister).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of financial statement preparation

The accompanying financial statements have been prepared on a going concern basis and in accordance with Canadian public sector accounting standards and reflect the following significant accounting policies.

The statements of financial position, operations and accumulated deficit, remeasurement gains and losses, changes in net debt, and cash flows for the year ended December 31, 2015 represent the activities of the IESO since inception on January 1, 2015. The comparative figures represent the pro-forma combined financial position and operations of the former IESO and OPA, as prepared under the accounting policies used in preparing the 2015 financial statements, as if the two entities had always operated as a single entity.

b) Revenue recognition

System fees earned by the IESO are based on approved rates for each megawatt of electricity withdrawn from the IESO-controlled grid (including scheduled exports) and embedded generation. System fees are recognized as revenue at the time the electricity is withdrawn. Rebates are recognized in the year in which the regulatory deferral account, before such rebates, exceeds regulated limits.

For 2015, the system fee for the newly amalgamated IESO comprised of the combined rate calculations of the respective pre-amalgamation entities. Specifically, the former IESO rate base was calculated on electricity withdrawn from the IESO-controlled grid (including scheduled exports and embedded generation), whereas the former OPA rate base only considered Ontario electricity consumers. The IESO has submitted a rate case to the OEB for 2016 that proposes the use of one, consistent rate, based on electricity withdrawn from the IESO-controlled grid that includes scheduled exports and embedded generation.

These financial statements do not include the financial transactions of market participants within the IESO-administered markets.

Other revenue represents amounts that accrue to the IESO relating to investment income on funds passing through market settlement accounts, as well as application fees. Such revenue is recognized as is earned.

Interest and investment income represents realized interest income and investment gains or losses on cash, cash equivalents, short-term investments and long-term investments.

Market sanctions represent funds received to offset payments disbursed related to penalties, damages, fines and payment adjustments arising from resolved settlement disputes.

c) Financial instruments

The IESO records cash and cash equivalents, investment portfolio, and foreign currency exchange forward contracts at fair value. The cumulative change in fair value of these financial instruments is recorded in accumulated surplus as remeasurement gains and losses and is included in the value of the respective financial instrument shown in the statement of financial position and the statement of remeasurement gains and losses. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the statement of operations and all other gains and losses associated with the disposition of the financial instrument are recorded in the statement of operations. Transaction costs are charged to operations as incurred.

Cash and cash equivalents comprise cash, term deposits and other short-term, highly-rated investments with original maturity dates of less than 90 days.

The IESO records accounts receivable, accounts payable and debt at amortized cost.

d) Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts directly attributable to the acquisition, construction, development or betterment of the asset. The IESO capitalizes applicable interest as part of the cost of tangible capital assets.

e) Assets under construction

Assets under construction generally relates to the costs of physical facilities, hardware and software, and includes costs paid to vendors, internal and external labour, consultants and interest related to funds borrowed to finance the project. Costs relating to assets under construction are transferred to tangible capital assets when the asset under construction is deemed to be ready for use.

f) Amortization

The capital cost of tangible capital assets in service is amortized on a straight-line basis over their estimated service lives.

The estimated service lives in years, from the date the assets were acquired, are:

Class	Estimated Average Service Life 2015	Estimated Average Service Life 2014
Facilities	37	37
Market systems and applications	4 to 12	4 to 12
Infrastructure and other assets	4 to 7	4 to 7
Meter data management/repository	10	10

Gains and losses on sales or premature retirements of tangible capital assets are charged to operations.

The estimated service lives of tangible capital assets are subject to periodic review. The effects of changes in the estimated lives are amortized on a prospective basis. The most recent review was completed in fiscal 2015.

g) Pension, other post-employment benefits and compensated absences

The IESO's post-employment benefit programs include pension, group life insurance, health care, long-term disability and workers compensation benefits.

The IESO accrues obligations under pension and other post-employment benefit (OPEB) plans and the related costs, net of plan assets. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimate of expected return on plan assets, salary escalation, retirement ages of employees, mortality and expected health-care costs. The discount rate used to value liabilities is based on the expected rate of return on plan assets as at the measurement date of September 30.

The expected return on plan assets is based on management's long-term best estimate using a market-related value of plan assets. The market-related value of plan assets is determined using the average value of assets over three years as at the measurement date of September 30.

Pension and OPEB expenses are recorded during the year in which employees render services. Pension and OPEB expenses consist of current service costs, interest expense on liabilities, expected return on plan assets and the cost of plan amendments in the period. Actuarial gains/(losses) arise from, among other things, the difference between the actual rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. Actuarial gains/(losses) are amortized over the expected average remaining service life of the employees covered by the plan.

The expected average remaining service life of employees covered by the pension plans is 15 years (2014 – 13 years) and OPEB plans is 14.7 years (2014 - 14 years).

The IESO sick pay benefits accumulate but do not vest. The IESO accrues sick pay benefits based on the expectation of future utilization, and records the accrual within accounts payable and accrued liabilities.

h) Foreign currency exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Items on the statement of financial position denominated in foreign currency are translated to Canadian dollars at the rate of exchange as of the financial statements date. The cumulative unrealized foreign currency exchange gains and losses of items continuing to be recognized on the statement of financial position are recorded in accumulated deficit as remeasurement gains and losses and shown in the statement of financial position and the statement of remeasurement gains and losses. Upon settlement of the item denominated in a foreign currency, the cumulative remeasurement gains and losses are reclassified to the statement of operations and all other gains and losses associated with the disposition of the financial instrument are recorded in the statement of operations.

i) Use of estimates

The preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements. The IESO's accounts which involve a greater degree of uncertainty include the carrying values of tangible capital assets, rebates to market participants, accrued pension liability, and accrual for employee future benefits other than pensions. Actual results could differ from those estimates.

3. LONG-TERM INVESTMENTS

Long-term investments in a balanced portfolio of pooled funds are valued by the pooled funds manager based on published price quotations and amount to $37,019 thousand (2014 - $33,758 thousand). As at December 31, the market value allocation of these long-term investments was 56.0% equity securities and 44.0% debt securities (2014 – 59.7% and 40.3% respectively).

Balanced portfolio of pooled funds

As at December 31 (in thousands of Canadian dollars)	2015	2014
	$	$
Opening balance	33,758	31,683
Purchase/(sale) of investments	1,889	(830)
Change in fair value	1,372	2,905
Closing balance	**37,019**	**33,758**

In addition to the balanced portfolio of pooled funds, the IESO has a long-term deposit with Canada Revenue Agency in the amount of $299 thousand (2014 - $221 thousand) pertaining to the Retirement Compensation Arrangements Trust (Note 6).

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31 (in thousands of Canadian dollars)	2015	2014
	$	$
Relating to operations	43,125	43,851
Relating to tangible capital assets	5,743	7,312
	48,868	**51,163**

5. REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED DEFICIT

In 2015, the IESO recognized $9,595 thousand in rebates due to market participants of system fees (2014 - $28,786). As at December 31, 2015 rebates due to market participants were $9,595 thousand (2014 - $nil).

Historically, the IESO's approved regulatory deferral account balance has been maintained at a maximum of $10.0 million ($5.0 million each of the former IESO and OPA for a combined $10.0 million). The 2015 approved regulatory deferral account balance will be established at the time of the 2016 rate case with the OEB, which is expected to be in the spring of 2016.

Prior to 2014, unrealized gains and losses from portfolio investments and foreign exchange were included in the balance of the regulatory deferral account (life-to-date total $4,144 thousand). As of January 1, 2014, only realized gains and losses are included in this balance.

As at December 31, the components of the accumulated deficit were as follows:

Accumulated Deficit

As at December 31 (in thousands of Canadian dollars)	2015	2014
	$	$
Regulatory deferral account (a)	10,000	7,604
Accumulated market sanctions and payment adjustments (b)	492	(970)
Smart metering entity – accumulated deficit (c)	(40,849)	(60,879)
PSAB transition items (d)	(47,353)	(51,265)
Remeasurement gains/(losses)	3,514	2,218
Accumulated deficit – end of year	**(74,196)**	**(103,292)**

a) Regulatory Deferral Account

As at December 31 (in thousands of Canadian dollars)	2015	2014
	$	$
Accumulated surplus – beginning of year	7,604	38,792
Revenues (before rebates due to market participants)	196,906	198,824
Rebates due to market participants	(9,595)	(28,786)
Core operation expenses	(181,003)	(186,093)
IESO – OPA amalgamation expenses	-	(10,883)
Recovery of PSAB transition items	(3,912)	(4,250)
Accumulated surplus – end of year	**10,000**	**7,604**

b) Accumulated Market Sanctions and Payment Adjustments

As at December 31 (in thousands of Canadian dollars)	2015	2014
	$	$
Accumulated surplus – beginning of year	(970)	706
Market sanctions and payment adjustments	6,021	2,687
Customer education and market enforcement expenses	(4,559)	(4,363)
Accumulated surplus/(deficit) – end of year	**492**	**(970)**

c) Smart Metering Entity - Accumulated Deficit

As at December 31 (in thousands of Canadian dollars)	2015	2014
	$	$
Accumulated deficit – beginning of year	(60,879)	(78,745)
Smart metering charge	46,215	45,735
Smart metering expenses	(26,185)	(27,869)
Accumulated deficit – end of year	**(40,849)**	**(60,879)**

d) PSAB Transition Item - Accumulated Deficit

As at December 31 (in thousands of Canadian dollars)	2015	2014
	$	$
Accumulated deficit – beginning of year	(51,265)	(55,515)
Recovery of PSAB transition items	3,912	4,250
Accumulated deficit – end of year	**(47,353)**	**(51,265)**

Effective January 1, 2011, the IESO adopted Canadian public sector accounting standards (PSAB) with a transition date of January 1, 2010. The adoption of PSAB was accounted for by retroactive application with restatement of prior periods subject to the requirements in Section PS 2125, *First-time Adoption by Government Organizations*. The corresponding change to pension and other-post employment benefits resulted in previously unrecognized actuarial losses and past service costs of $80,617 thousand at the date of transition being charged to the accumulated deficit.

The IESO includes a portion of the accumulated deficit resulting from the PSAB transition items in the annual proposed expenditures to the OEB for recovery through system fees.

6. DEBT

Note payable to Ontario Electricity Financial Corporation (OEFC)

In April 2014, the IESO entered into a three-year note payable with the OEFC. The note payable is unsecured, bears interest at a fixed rate of 2.046% per annum and is repayable in full on April 30, 2017. Interest accrues daily and is payable in arrears semi-annually in April and October of each year. As at December 31, 2015, the note payable to the OEFC was $90.0 million (December 31, 2014 - $90.0 million).

For the year ended December 31, 2015, the interest expense on the note payable was $1,841 thousand (2014 - $1,650 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 $95.0 million. Advances 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 April 30, 2017. As at December 31, 2015, no amount was drawn on the credit facility (December 31, 2014 - $39.0 million).

For the year ended December 31, 2015, the interest expense on the credit facility was $279 thousand (2014 - $664 thousand).

Retirement Compensation Arrangements Trust

In July 2013, the IESO established a Retirement Compensation Arrangements Trust (RCA) to provide security for the IESO's obligations under the terms of the supplemental employee retirement plan for its employees. As at December 31, 2015, the IESO has provided the RCA trustee with a bank letter of credit of $28,408 thousand (2014 - $23,370 thousand) the trustee can draw on if the IESO is in default under the terms of this plan.

7. POST-EMPLOYMENT BENEFIT PLANS

The IESO provides pension and other employee post-employment benefits, comprising group life insurance, long-term disability and group medical and dental plans, for the benefit of current and retired employees.

Pension plans

The IESO provides a contributory defined benefit, indexed, registered pension plan. In addition to the funded, registered, pension plan, the IESO provides certain non-registered defined benefit pensions through an unfunded, indexed, non-registered plan.

Other employee future benefits

The group life insurance, long-term disability and group medical and dental benefits are provided through unfunded, non-registered defined benefit plans.

Summary of accrued benefit obligations and plan assets

(in thousands of Canadian dollars)	2015 Pension Benefits	2014 Pension Benefits	2015 Other Benefits	2014 Other Benefits
	$	$	$	$
Accrued benefit obligation	482,994	452,466	83,455	69,427
Fair value of plan assets	475,714	455,229	-	-
Funded status as of measurement date	(7,280)	2,763	(83,455)	(69,427)
Employer contribution/other benefits payments after measurement date	427	207	582	586
Unrecognized actuarial (gain)/loss	(29,209)	(39,913)	(1,628)	(11,073)
Accrued liability recognized in the statement of financial position	**(36,062)**	**(36,943)**	**(84,501)**	**(79,914)**

Registered pension plan assets
As at the measurement date of September 30, the proportion of the fair value of registered pension plan assets held in each asset class was as follows:

	2015	2014
Canadian equity securities	19.9%	20.6%
Foreign equity securities	41.8%	40.7%
Canadian debt securities	39.0%	37.9%
Cash equivalents	0.6%	1.1%
Forward foreign exchange contracts	(1.3%)	(0.3%)
	100.0%	**100.0%**

Principal assumptions used to calculate benefit obligations at the end of the year are determined at that time and are as follows:

	2015 Pension Benefits	2014 Pension Benefits	2015 Other Benefits	2014 Other Benefits
Discount rate at the end of the period	6.00%	6.15%	6.00%	6.15
Rate of compensation increase	3.75%	3.75%	3.75%	3.75%
Rate of indexing	2.25%	2.25%	2.25%	2.25%

The assumed prescription drug inflation was 8.25% for 2015 grading down to an ultimate rate 4.75% per year in 2029. Dental costs are assumed to increase by 4.25% per year.

Benefit costs and plan contributions for pension and other plans are summarized as follows:

(in thousands of Canadian dollars)	2015 Pension Benefits	2014 Pension Benefits	2015 Other Benefits	2014 Other Benefits
	$	$	$	$
Current service cost (employer)	10,547	7,707	2,857	2,339
Interest cost	28,143	27,787	4,797	5,241
Expected return on plan assets	(26,053)	(23,630)	-	-
Amortization of net actuarial loss	(667)	1,913	(753)	586
Benefit cost	**11,970**	**13,777**	**6,901**	**8,166**

(in thousands of Canadian dollars)	2015 Pension Benefits	2014 Pension Benefits	2015 Other Benefits	2014 Other Benefits
	$	$	$	$
Employer contribution/other benefit payments	12,851	11,973	2,314	2,321
Plan participants' contributions	5,162	3,722	-	-
Benefits paid	21,155	20,862	2,314	2,321

The most recent actuarial valuation of the registered pension plan for funding purposes was at January 1, 2014, and the date of the next required valuation is January 1, 2017. In 2015, a cost certificate was filed with Financial Services Commission of Ontario (FSCO).

Principal assumptions used to calculate benefit costs for the year are determined at the beginning of the period and are as follows:

	2015 Pension Benefits	2014 Pension Benefits	2015 Other Benefits	2014 Other Benefits
Discount rate at the beginning of the period	6.15%	6.25%	6.15%	6.25%
Rate of compensation increase	3.75%	3.75%	3.75%	3.75%
Rate of indexing	2.25%	2.25%	2.25%	2.25%

8. TANGIBLE CAPITAL ASSETS

Net tangible capital assets consist of the following:

Tangible Capital Assets

(in thousands of Canadian dollars)	As at Dec. 31, 2014	Additions	Disposals	As at Dec. 31, 2015
	$	$	$	$
Facilities	55,818	116	(3,653)	52,281
Market systems and applications	262,840	16,364	(746)	278,458
Infrastructure and other assets	56,910	6,731	(3,461)	60,180
Meter data management/repository	35,434	466	-	35,900
Total cost	**411,002**	**23,677**	**(7,860)**	**426,819**

Accumulated Amortization

(in thousands of Canadian dollars)	As at Dec. 31, 2014	Amortization Expense	Disposals	As at Dec. 31, 2015
	$	$	$	$
Facilities	(23,970)	(2,287)	3,653	(22,604)
Market systems and applications	(241,287)	(10,669)	746	(251,210)
Infrastructure and other assets	(45,712)	(4,977)	3,461	(47,228)
Meter data management/repository	(21,805)	(3,524)	-	(25,329)
Total accumulated amortization	**(332,774)**	**(21,457)**	**7,860**	**(346,371)**

Net Book Value

(in thousands of Canadian dollars)	As at December 31, 2014	As at December 31, 2015
	$	$
Facilities	31,848	29,677
Market systems and applications	21,553	27,248
Infrastructure and other assets	11,198	12,952
Meter data management/repository	13,629	10,571
Total net book value	**78,228**	**80,448**
Assets under construction	21,321	23,268
Net tangible capital assets	**99,549**	**103,716**

In 2015, the impact of adjustments to management's estimates of remaining asset service lives was a decrease in amortization expense of $653 thousand (2014 – decrease of $665 thousand)

Interest capitalized to assets under construction during 2015 was $263 thousand (2014 - $165 thousand).

9. OTHER REVENUE

In its administration of the IESO-administered markets, the IESO directs the investment of market funds in highly-rated short-term investments throughout the settlement cycle. The IESO is entitled to receive the investment interest and investment gains, net of investment losses earned on funds passing through the real-time market settlement accounts. The IESO is not entitled to the principal on real-time market investments.

The IESO recognized investment income earned in the market settlement accounts of $3,212 thousand in 2015 (2014 - $1,724thousand).

10. RELATED PARTY TRANSACTIONS

The Province of Ontario is a related party as it is the controlling entity of the IESO. The OEFC, OEB, Hydro One and Ontario Power Generation Inc. (OPG) are related parties of the IESO, through the common control of the Province of Ontario. Transactions between these parties and the IESO were as follows:

The IESO holds a note payable and an unsecured credit facility agreement with the OEFC (Note 6). Interest payments made by the IESO in 2015 for the note payable was $1,841 thousand (2014 - $1,545 thousand) and for the credit facility was $328 thousand (2014 - $671 thousand). As of December 31, 2015 the IESO had an accrued interest payable balance with the OEFC of $315 thousand (2014 - $364 thousand).

Under the *Ontario Energy Board Act, 1998*, the IESO incurs registration and license fees. The total of the transactions with the OEB were $1,671 thousand in 2015 (2014 - $1,642 thousand).

The IESO performed connection and bulk electric system exception assessments for Hydro One in 2015. In 2015, the IESO invoiced Hydro One $310 thousand (2014 - $437 thousand).

The IESO procures short circuit studies and protection impact assessments as part of connection assessments and approvals and meter services on IESO owned interconnected revenue meters from Hydro One. Additionally, IESO paid Hydro One for the removal of the microwave tower at the Clarkson location. In 2015, the IESO incurred costs of $525 thousand (2014 - $144 thousand) for these services. As of December 31, 2015 the IESO had a net payable balance with Hydro One of $149 thousand (2014 – $121 thousand).

The IESO performed connection assessment and approvals for OPG, administered telecommunication services to market participants to connect to the real time market systems and provides market related training courses. In 2015, OPG was invoiced $137 thousand (2014 - $54 thousand). As of December 31, 2015 the IESO had a net receivable balance with OPG of $4 thousand (2014 - $4 thousand).

11. FINANCIAL RISK MANAGEMENT

The IESO is exposed to financial risks in the normal course of its business operations, including market risks resulting from volatilities in equity, debt, and foreign currency exchange markets, as well as credit risk and liquidity risk. The nature of the financial risks and the IESO's strategy for managing these risks has not changed significantly from the prior year.

a) Market Risk

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate to cause changes in market prices. The IESO is primarily exposed to three types of market risk: currency risk, interest rate risk and equity risk. The IESO monitors its exposure to market risk fluctuations and may use financial instruments to manage these risks as it considers appropriate. The IESO does not use derivative instruments for trading or speculative purposes.

i) Currency Risk

The IESO conducts certain transactions in US dollars, primarily related to vendors' payments, and maintains a US dollar denominated bank account. From time to time, the IESO may utilize forward purchase contracts to purchase US dollars for delivery at a specified date in the future at a fixed exchange rate. In addition, the IESO utilizes US dollar spot rate purchases in order to satisfy any current accounts. As at December 31, 2015, the IESO did not have any outstanding forward purchase contracts.

ii) Interest Rate Risk

The IESO is exposed to movements or changes in interest rates primarily through its short-term variable rate credit facility, cash equivalents' securities, and long-term investments. Long-term investments include investments in a pooled Canadian bond fund. The potential impact to the securities' value had the prevailing interest rates changed by 25 basis points, assuming a parallel shift in the yield curve, with all other variables held constant is estimated at \$0.6 million as at December 31, 2015 (2014 - \$0.5 million).

iii) Equity Risk

The IESO is exposed to changes in equity prices through its long-term investments. Long-term investments include investments in pooled equity funds. A 30% change in the valuation of equities as at December 31, 2015 would have resulted in a change for the year (before the impact of adjustments to the approved regulatory deferral account (Note 5) of approximately \$6.8 million (2014 - \$6.0 million). The fair values of all financial instruments measured at fair value are derived from quoted prices (unadjusted) in active markets for identical assets.

b) Credit Risk

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The IESO is exposed directly to credit risk related to cash equivalents' securities and accounts receivable, and indirectly through its exposure to the long-term investments in a Canadian bond pooled fund. The IESO manages credit risk associated with cash equivalents' securities through an approved management policy which limits investments to investment grade investments with counterparty-specific limits. The accounts receivable balance as at December 31, 2015 included no material items past due and substantially all of the balance was collected within 30 days from December 31, 2015. The long-term Canadian bond pooled fund is comprised of primarily investment grade securities.

c) Liquidity Risk

Liquidity risk refers to the risk that the IESO will encounter financial difficulty in meeting obligations associated with its financial liabilities when due. The IESO manages liquidity risk by forecasting cash flows to identify cash flows and financing requirements. Cash flows from operations, short-term investments, long-term investments, and maintaining appropriate credit facilities help to reduce liquidity risk. The IESO's long-term investments are normally able to be redeemed within three business days however; the investment manager of the pooled funds has the authority to require a redemption in-kind rather than cash and has the ability to suspend redemptions if deemed necessary.

12. COMMITMENTS

Operating commitments

The obligations of the IESO with respect to non-cancellable operating leases over the next five years are as follows:

As at December 31 (thousands of Canadian dollars)	$
2016	5,616
2017	5,288
2018	4,793
2019	3,724
2020	3,051

The above figures include lease payments up to July 2017 which have also been included in the 2014 OPA-IESO amalgamation expense ($1,700 thousand). As of December 31, 2015 this balance is $1,120 thousand.

13. CONTINGENCIES AND GUARANTEES

Contingencies

The IESO is subject to various claims, legal actions, and investigations that arise in the normal course of business. While the final outcome of such matters cannot be predicted with certainty, management believes that the resolution of such claims, actions and investigations will not have a material impact on the IESO's financial position or results of operations.

Guarantees

The IESO enters into contracts with suppliers of electricity as part of its normal business operations. In some cases, these contracts require the IESO to support obligations with these entities. In 2012, the IESO entered into a letter of credit amounting to $1,349 thousand in support of a contracted obligation. As at December 31, 2015, no amounts have been drawn on the balance.