

## Supplemental Financial Information

### Projected 2009 Financial Results

#### 2009 Projected Operating Results

Overall, the IESO is projecting a deficit of \$0.3M for 2009 which will reduce the accumulated operating surplus from \$5.0 million to \$4.7 million by year-end.

Consistent with the OEB's decisions in past fee submissions, the IESO proposes to rebate any accumulated surplus over \$5.0 million to market participants; however, given the projected deficit, the IESO is not projecting a rebate to market participants in 2010.

#### Usage Fees

The projected usage fee revenue for 2009 is \$122.8 million, approximately \$1.9 million less than budget. This variance is a result of a projected decrease in Ontario demand. The current forecasted energy volumes for Ontario demand and exports for 2009 are 149.4 TWh; 2.3 TWh lower than the energy levels used for budgeting. The following table outlines these variances:

TWh	2009 Projected <sup>1</sup>	2009 Budget	Projected Variance
Ontario Demand (net of line losses)	137.3	145.0	(7.7)
Exports	12.1	6.7	5.4
<b>Total</b>	<b>149.4</b>	<b>151.7</b>	<b>(2.3)</b>

As outlined in the table, the projected variance in usage fee revenues is a result of lower domestic demand which is partially offset by higher projected exports.

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<sup>1</sup> The 2009 projected energy volumes represent actual volumes to the end of July 2009 and forecast volumes for August through December 2009 based on the IESO's 18-month outlook released May 25, 2009.

### Market-Related Interest Income

Market-related interest income represents interest earned on funds in the IESO-administered markets settlement clearing bank accounts. There are two ways that interest on market funds is earned:

- In the settlement of the market, funds collected from owing market participants (i.e., buyers) are paid to receiving market participants (i.e., sellers) two business days later. In the period between receipt and disbursement of market funds, the monies are invested.
- Market participants make periodic prepayments and the IESO invests these monies.

The IESO invests real-time energy market funds in highly rated, liquid, short term investments. In previous years these investments included notes known as asset-backed commercial paper (ABCP). Since August 2007 there has been a liquidity crisis in the Canadian market for ABCP which has impaired the value of the IESO's ABCP holdings and hence, the market-related interest income earned by the IESO.

It is the IESO's view that by the end of 2009, the trading value of ABCP investments will be lower than if they traded in the medium to long-term. The IESO estimates that they will trade no higher than 45% of their principal amount of \$23.1 million at year end.

In addition, interest being paid on overnight investments is much lower than was assumed in the 2009-2011 Business Plan. In that plan, the IESO forecast an average return of 4.75% on investments in 2009, whereas the most recent outlook is for an average return of approximately 0.54% over the year.

As a result of these lower interest rates and the impairment in the value of ABCP investments, the projected 2009 closing balance for market-related investment

income is negative. The following table summarizes the components of the market-related investment income for 2009 (in \$ millions):

Actual non-ABCP investment income in 2007	4.1
Actual non-ABCP investment income in 2008	2.7
Actual ABCP investment income in 2008	0.6
Projected non-ABCP investment income in 2009	0.2
Projected ABCP investment income in 2009	0.4
Projected loss in ABCP value at the end of 2009	(12.5)
Closing balance for market investment income	(4.5)

Since the closing accumulated balance is less than zero, no revenue is expected to be recognized for 2009.

Operating, Maintenance & Administration (OM&A) Program Costs

Overall, the total OM&A program costs are projected to be \$2.6 million, or 2.8%, below budget. The following table outlines the projected costs relative to budget.

(\$ millions)	2009 Projected	2009 Budget	Projected Variance
Staff Costs	62.8	64.5	(1.7)
Computer Support, Maintenance & Equipment	9.2	9.8	(0.6)
Contract Services & Consultants	7.8	8.0	(0.2)
Administration	7.5	7.6	(0.1)
Telecommunications	3.2	3.2	-
<b>Total OM&amp;A Program Costs</b>	<b>90.5</b>	<b>93.1</b>	<b>(2.6)</b>

### Staff Costs

Staff costs are expected to be \$1.7 million lower than planned. This is due to lower post employment benefits, excluding pension costs (\$0.4 million), and further reductions (\$1.3 million) from hiring lags and management's successful attainment of cost savings consistent with Ministry targets.

### Computer Support, Maintenance and Equipment Costs

Reductions in computer support, maintenance and equipment costs are the result of decreases in the amount of equipment under contract, merging of existing contracts and negotiation of new contracts, as well as a focused effort to minimize support hours.

## 2009 Projected Balance Sheet

The following chart shows a summarized projected balance sheet as at December 31, 2009, compared to the 2009 budget.

(\$ millions)	2009 Projected	2009 Budget	Projected Variance
Cash, Cash Equivalents and Temporary Investments	2.0	2.2	(0.2)
Accounts Receivable and Short-term Prepaid Expenses	17.1	20.5	(3.4)
<b>Current Assets</b>	<b>19.1</b>	<b>22.7</b>	<b>(3.6)</b>
Property and Equipment	77.7	86.9	(9.2)
Long-term Investments	17.6	19.6	(2.0)
Prepaid Pension Expense	3.6	-	3.6
<b>Total Assets</b>	<b>118.0</b>	<b>129.2</b>	<b>(11.2)</b>
Accounts Payable, Accrued Liabilities and Accrued Interest	22.4	20.1	2.3
Debt	39.0	45.5	(6.5)
Accrued Pension Liability	-	6.3	(6.3)
Accrual for Employee Future Benefits other than Pension	50.8	51.4	(0.6)
<b>Total Liabilities</b>	<b>112.2</b>	<b>123.3</b>	<b>(11.1)</b>
Accumulated Operating Surplus	4.7	5.0	(0.3)
Accumulated Market-related Penalties and Fines	1.1	0.9	0.2
<b>Total Liabilities and Surplus</b>	<b>118.0</b>	<b>129.2</b>	<b>(11.2)</b>

### Accounts Receivable and Short-term Prepaid Expenses

Accounts receivable and short-term prepaid expenses are projected to be \$17.1 million at the end of 2009, \$3.4 million below budget. This variance is primarily due to \$nil market-related interest income for 2009.

### Total Property and Equipment

Total property and equipment at the end of 2009 is projected to be \$77.7 million, \$9.2 million below budget. This variance is mainly due to 2009 capital spending which is projected to be \$10.3 million below budget, partially offset by lower than the budgeted amortization of \$1.5 million.

### Prepaid Pension Expense

Prepaid pension expense at the end of 2009 is projected to be \$3.6 million, or \$9.9 million higher than the budgeted accrued pension liability of \$6.3 million. This variance is due to the higher than expected pension contributions in the year (\$17.3 million). The contribution is based on the January 1, 2008 IESO Pension Plan actuarial valuation plus an additional contribution of \$8.4 million. In addition, the 2009 pension expense is projected to be approximately \$1.3 million lower than budget. This reflects an increase in the discount rate (determined by reference to high quality long-term corporate bonds). The actual discount rate utilized in calculating the 2009 pension expense was 6.1%, as compared to 5.5% assumed in the 2009 – 2011 Business Plan.

### Debt

Total debt is projected to be \$6.5 million less than budget, due to the reduced level of capital spending in the year.

## 2009 Capital Expenditures

For 2009, the IESO forecasts that expenditures on capital initiatives will total \$12.6 million, an amount that is approximately \$10.3 million below the approved budget. As outlined in the following table, this is primarily due to a \$9.5 million variance relating to the Enhanced Day-Ahead Commitment project.

(\$ millions)	2009 Projected	2009 Budget	Projected Variance
Enhanced Day-Ahead Commitment	6.4	15.9	(9.5)
On-Line Limit Derivation	1.4	0.8	0.6
Enrolment Automation Project	0.2	0.6	(0.4)
Outage Management Replacement	0.1	0.4	(0.3)
NERC – CIP Program	-	0.2	(0.2)
NERC Standards Compliance Monitoring Tool	0.1	0.1	-
Other Capital Initiatives	4.4	4.9	(0.5)
<b>Total Capital</b>	<b>12.6</b>	<b>22.9</b>	<b>(10.3)</b>

Given the ongoing need for reprioritization of capital projects, the IESO does not use the business planning process as a mechanism for capital project approval. Rather, through business planning, an appropriate capital envelope is established for future years and each individual project is approved by the appropriate level of IESO management. The following section outlines the variances between the business plan capital project assumptions and projected capital expenditures.

## 2009 Key Capital Initiatives

### Enhanced Day-Ahead Commitment

The IESO Board of Directors approved management's recommendation to proceed with the enhanced day-ahead commitment processes (EDAC) in September 2008.

Capital work began in the first half of 2009, with the IESO working with stakeholders to finalize the process details based on a market design that was finalized in February 2009.

The spending variance of \$9.5 million is a result of the changes in the schedule for this project. The current project schedule shows market trials commencing early in 2011. The total approved capital spend remains unchanged at \$26.5 million with projected expenditures of \$6.4 million, 13.5 million and \$6.6 million in 2009, 2010 and 2011 respectively. The project costs and the timing remain subject to some variability depending on the final design.

The project is expected to deliver:

- Improved efficiency of unit commitment to reduce the overall cost of supplying market demand;
- Improved operational signals to generators, which, among other things, should result in improved coordination of gas and electricity markets; and
- Support for the anticipated changes in Ontario's electricity sector without inhibiting future market evolution initiatives.

#### On-Line Limit Derivation

The On-Line Limit Derivation project will be undertaken in several stages over the business planning period for a total projected capital cost of \$6.3 million. The project will mitigate identified risks in the Resource Integration and Operations business units, and essentially replaces much of the manual development of system operating limits with automated tools. This project will acquire or develop the tools to facilitate on-line limit derivation in both the on-shift and back office environments. The new systems will be fully integrated into the existing suite of tools.

The 2009 projected variance reflects a shift in timing of costs from 2008.

#### Enrolment Automation Project

The Enrolment Automation Project is comprised of three separate projects which will improve how the IESO manages customer information: Customer Information and Data Efficiency; Customer Process Automation; and Customer Interface. The first project will develop a new Customer Data Management System (CDMS) that will immediately replace some of the end user built data repositories and eventually replace the existing Participant Lifecycle (PLC) system. The PLC system is the primary repository of market participant data at the IESO used for providing data critical to market systems. The remaining two projects will address the handling of customer process information currently stored in other IESO registration databases, as well as moving business processes to a central web interface allowing IESO staff and customers to better manage customer information.

The 2009 projected variance reflects a shift in timing on project delivery to 2010.

#### Outage Management Replacement

The scope of the Outage Management Replacement project identified in 2009 capital plan has been reduced in scope and will include the key functionality that will enable market participants to submit and review their outage information via the IESO portal. This functionality will reduce IESO effort to process outages for market participants that do not use the automated interface.

#### NERC CIP – Program

NERC Reliability Standards CIP-002 through CIP-009 provide a cyber security framework for accountability, identification and protection of critical cyber assets

to support reliable operation of the Bulk Electric System. Although \$0.2 million was budgeted in 2009, no capital spending was required on this project

#### NERC Standards Compliance Monitoring Tool

The NERC Standards Compliance Monitoring Tool is required to ensure that compliance with NERC reliability standards is monitored, auditable and effective. This tool is needed in advance of the associated NERC audit in 2011. The expected cost of the tool is \$0.1 million in 2009 and \$0.2 million over the business planning period.

### **Financial Outlook 2010 - 2012**

#### Total Costs: 2009-2012

<b>(\$ millions)</b>	<b>2009 Projected</b>	<b>2010 Budget</b>	<b>2011 Plan</b>	<b>2012 Plan</b>
OM&A Program Costs	90.5	91.5	91.4	93.8
OM&A Pension Costs	10.8	11.3	14.1	16.5
Amortization	20.9	21.0	17.8	16.9
Net Interest	2.6	1.0	1.5	2.0
<b>Total Costs</b>	<b>124.8</b>	<b>124.8</b>	<b>124.8</b>	<b>129.2</b>

#### OM&A Program Costs

<b>(\$ millions)</b>	<b>2009 Projected</b>	<b>2010 Budget</b>	<b>2011 Plan</b>	<b>2012 Plan</b>
Staff Costs	62.8	62.6	61.9	64.0
Computer Support, Maintenance & Equipment	9.2	9.7	10.0	10.2
Contract Services & Consultants	7.8	8.1	8.5	8.3
Administration	7.5	7.8	7.7	7.8
Telecommunications	3.2	3.3	3.3	3.5
<b>OM&amp;A Program Costs</b>	<b>90.5</b>	<b>91.5</b>	<b>91.4</b>	<b>93.8</b>

In 2010, OM&A program costs are budgeted to increase slightly compared to the 2009 projection, and remain relatively flat in 2011. Increases in 2012 are due to inflation.

#### Staff Costs

The IESO continues to be a staff-intensive business. Over the planning period, staff costs represent approximately 50% of the total costs and 68% of the total OM&A program costs. This excludes OM&A pension expense, which although categorized separately nonetheless relates to regular staff. Factoring in the pension expense, staff-related costs account for roughly 60% of total costs in each year of the planning period.

The IESO recognizes the impact of the declining economic conditions on customers and stakeholders and has proposed no fee increases for 2010. In order to achieve this, IESO budgeted staff levels will be reduced with resources reallocated to areas of increased focus reflecting changes in the electricity sector. The recent IESO organizational realignment paves the way for this new approach.

Over the business planning period, 12 staff positions will be removed across the business in 2010, with a further 30 positions removed in 2011.

#### Computer Support, Maintenance & Equipment

Computer support, maintenance and equipment costs are projected to increase in 2010 by \$0.5 million and to continue increasing slightly over the planning period. These costs include increasing annual support and maintenance fees for the market and operating systems, annual license renewals, as well as computer leases and consumables.

### Contract Services & Consultants

Contract services and consultants are projected to vary slightly in each of the planning years due mainly to different audits and reviews planned over the period. The majority of these costs are recurring annual expenses such as insurance, Board, Panel and Committee member remuneration, audit and accounting fees, legal services, human resources services, communication products & services, government relations functions and OEB fees.

### Administration<sup>2</sup>

Membership costs are budgeted to increase in 2010 by \$0.3 million and to remain relatively flat thereafter. The increase is primarily due to higher NPCC/NERC memberships.

All other administration costs are expected to increase by less than the cost-of-living.

### Telecommunications

Telecommunication costs are budgeted to increase slightly over the planning period to reflect anticipated inflationary increases.

### OM&A Pension Expense

Pension expense represents the actuarially estimated cost of providing pension benefits to IESO employees, using cost calculation methods that are prescribed by the Canadian Institute of Chartered Accountants (CICA) and assumptions that reflect current long-term bond yields and management's best estimates for the future. This expense reflects the proper charge for pensions in the financial statements, in accordance with Canadian

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<sup>2</sup> Administrative expenses include memberships, rent, utilities, materials and supplies, rental facilities, building services, and property taxes.

Generally Accepted Accounting Principles (GAAP). Three factors that have a large influence on this expense are:

- The institutional arrangements in place;
- Pension plan investment performance, and
- Critical assumptions used.

#### Institutional arrangements

In terms of institutional arrangements, the IESO has its own pension plan. Therefore, the pension expense charged through the usage fee is directly impacted by many variables, including fund performance and interest rate assumptions. Some organizations are part of a larger pension plan and their pension expense represents their required contributions to that plan. Those contribution levels are impacted by plan performance and changes to assumptions; however, the rate of change in annual pension expense is likely to be lower than that of an individual plan sponsor, like the IESO.

#### Pension plan investment performance

With respect to pension plan investment performance, over the period 2002 through 2008, the plan earned an average annual return of 2.2%. These returns have not met management's annual long-term assumed rate of return of 6.75%.

In recognition of the long-term nature of the obligations and the desire for a "smoother" pension expense such that large fluctuations in the usage fee are mitigated, the IESO uses a smoothed value of assets in calculating the pension expense.

### Critical assumptions

The assumed long-term rate of return on plan assets is 6.75% per annum.

Pension liability — the pension liability represents the actuarially estimated, present value liability of the pension promises accrued to date for IESO employees and retirees. This estimate is impacted by factors including:

- Pension plan benefit provisions;
- Long-term interest rates;
- Plan membership;
- Mortality assumptions; and
- Other demographic and economic assumptions and experience.

The pension expenses are not the result of new or additional employee benefit levels. Increased benefit levels have not occurred in the past few years. In fact, changes have been made to reduce employer-paid pension benefits.

Long-term obligation — since this is a long-term obligation, there is an assumption made as to what interest rate to use to present-value the obligation. That interest rate is referred to as the discount rate and, according to Canadian GAAP, that rate should reflect the yields on high quality corporate long bonds in effect at the time of measurement.

Measurement date — the measurement date is September 30. For planning purposes, the discount rate in effect at the beginning of the planning process is used, and is then, subject to materiality considerations, revised on the measurement date. Over the last few years, long-term discount rates have dropped significantly; however, as of April 30, 2009 the discount rate was 6.4%, slightly higher than the 2008 discount rate of 6.1%. This slight increase in discount rate

has served to slightly reduce the pension expense; however, other changes in assumptions offset this reduction.

Listed below is a table showing the actual historical discount rates:

	2004	2005	2006	2007	2008
Actual Discount Rate (as of September 30 <sup>th</sup> )	6.25%	5.1%	5.0%	5.4%	6.1%

Legislative requirement — there is a legislative requirement of all pension plan sponsors to undertake a complete actuarial valuation of the plan at least every three years. This valuation helps ensure appropriate funding of the pension promise. In 2008, the IESO undertook an actuarial valuation, which presented an opportunity for a true-up of the plan's demographic status to that assumed by the actuaries between valuations. There will be no further true-ups until the next valuation date which is scheduled for 2011.

The following table summarizes the details of the change in projected pension expense in 2010 from 2009.

(\$ millions)	Current Service Costs	Interest on Benefit Obligation	Expected Return on Assets	Amortization of Experience	Total
Projected 2009 Pension Costs	7.1	23.1	(20.5)	2.8	12.5
Expected Developments	0.5	0.2	(0.4)	0.4	0.7
Fund Performance	-	-	0.4	1.0	1.4
Change in Discount Rate	(0.7)	0.2	-	(1.3)	(1.8)
<b>Budgeted 2010 Pension Costs</b>	<b>6.9</b>	<b>23.5</b>	<b>(20.5)</b>	<b>2.9</b>	<b>12.8</b>

Looking at 2011 and 2012, based on an assumption of no change in long-term discount rates and investment returns of 6.75% per annum, the pension expense is expected to increase to \$14.1 million and \$16.5 million respectively.

### Capital Spending

Over the planning period, the IESO intends to make business and tool improvements estimated to total:

- \$21.6 million in 2010;
- \$21.0 million in 2011; and
- \$19.2 million in 2012

This total three-year spending level of \$61.8 million includes an anticipated \$20.1 million on EDAC over the planning period. The remaining spending level for the planning period is \$41.7 million, or an approximate average of \$13.9 million per year.

Given the ongoing need for changes and reprioritization, the business planning process is not used as the mechanism for capital project approval. Rather, through business planning, an appropriate capital envelope is established for future years. This practice is consistent with prior years. As well, the IESO recognizes the need for robust disclosure of information about the projects for which this capital funding will be utilized.

The IESO employs an approach to capital budgeting for the planning period that includes two distinct groupings of capital projects – “key” capital initiatives and “other” capital initiatives. Key capital initiatives represent the most critical capital projects over the planning period that the IESO believes must be completed within the timeframe identified in the following table. The other capital initiatives are

also necessary projects, however, these are projects that lend themselves to more flexibility in planning or delivery so timing is not as critical, or they are lower priority than some key initiatives. Stakeholders should expect that the IESO will deliver the key capital initiatives as scheduled and, over the life of the plan, will deliver the other capital initiatives.

Ultimately, the IESO believes that this is a prudent and reasonable manner in which to budget its capital expenditures.

The following table provides additional information on the capital plan.

(\$ millions)	2009 Projected	2010 Budget	2011 Plan	2012 Plan
<b>Key Capital Initiatives</b>				
Enhanced Day-Ahead Commitment	6.4	13.5	6.6	-
On-Line Limit Derivation	1.4	1.3	1.4	1.8
Enrolment Automation	0.2	0.6	0.1	-
Outage Management Replacement	0.1	0.1	-	-
NERC Standards Compliance Monitoring Tool	0.1	0.1	-	-
Enhanced Forecasting for GEGEA	-	0.3	0.8	0.6
Initiatives				
<b>Other Capital Initiatives</b>	4.4	5.7	12.1	16.8
<b>Total Capital Spending</b>	<b>12.6</b>	<b>21.6</b>	<b>21.0</b>	<b>19.2</b>

The planned capital spending level of \$21.6 million in 2010 represents a \$9.0 million increase from the 2009 projected level of \$12.6 million, primarily as the result of a shift in EDAC spending.

#### Key Capital Initiatives

A number of the key capital initiatives within the planning period were started or already underway in 2009 and hence the descriptions for EDAC, On-Line Limit

Derivation, Enrolment Automation, Outage Management Replacement and NERC Standards Compliance Monitoring Tool are found earlier in this document.

#### Enhanced Forecasting for Green Energy and Green Economy Act (GEGEA) Initiatives

Additional tools and services are required to improve the forecasting of available energy from renewable intermittent sources and the impacts of resource variability on demand. The expected cost of these tools and services is \$1.7 million over the planning period.

#### Other Capital Initiatives

Throughout the planning period, based on shifting priorities, opportunities, and challenges, the actual plan may differ from that outlined in this plan. Within the IESO, all capital projects require Business Unit Leader, President and CEO, or Board of Directors approval as appropriate.<sup>3</sup>

#### Asset Service Lives

As part of the business planning process, the service lives used in the amortization of capital assets are reviewed. The IESO reviews existing assets against the proposed capital plan, and also reviews service life changes that are needed during the year. This is done to see if there is a need to reduce existing service lives because of early replacement or to see if there is a need to increase or extend asset lives, due to prudent asset management.

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<sup>3</sup> Business Unit Leaders can approve capital projects up to \$0.5 million, President & CEO can approve capital projects up to \$4.0 million, and the Board of Directors approves all capital projects in excess of \$4.0 million.

The following table outlines the amortization expense over the planning period:

<b>(\$ millions)</b>	<b>2009 Projected</b>	<b>2010 Budget</b>	<b>2011 Plan</b>	<b>2012 Plan</b>
Existing Assets In-Service	20.6	19.0	10.4	2.6
New Capital	0.3	2.0	7.4	14.3
<b>Total Amortization</b>	<b>20.9</b>	<b>21.0</b>	<b>17.8</b>	<b>16.9</b>

### Net Interest Expense

The interest expense over the planning period is largely based on the financing strategy outlined below.

### Financing Strategy

The note payable to the Ontario Electricity Financial Corporation (OEFC) due May 1, 2009 was repaid on May 1, 2009.

In April 2009, the IESO executed a new note payable with the OEFC in the amount of \$78.2 million, repayable in full by May 1, 2011. The note payable to OEFC is unsecured, bears interest at a per annum rate equal to the yield earned on ninety-day Province of Ontario treasury bills on the quarterly reset date plus 25 basis points.

On April 30, 2009, the existing corporate credit facility with a Canadian chartered bank expired and the IESO entered into a revised agreement with that bank. Under the terms of the new unsecured credit facility, the bank will make available to the IESO an amount of up to \$60.0 million. This credit facility expires on April 30, 2010.

The assumed average interest rate on the total debt is 0.82%, 1.75%, and 2.15% for 2010, 2011 and 2012 respectively.

The IESO maintains two separate lines of credit: a \$60.0 million corporate credit facility and \$100.0 million for market settlement needs. The cost of these lines of credits, aside from any interest on drawn amounts, includes stamping fees and a standby charge. In total, the annual cost is approximately \$0.8 million in each of the planning years.

For each large and enduring project, interest is capitalized on funds expended before the project is placed in-service. Over the planning period this includes EDAC. The resulting capitalized interest is \$0.1 million in 2010 and \$0.2 million in 2011.