



2006 Annual Report

Independent Electricity System Operator

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Letter to the Minister of Energy

I am pleased to submit the 2006 Annual Report of the Independent Electricity System Operator (IESO).

This report demonstrates our continued commitment to providing value to our customers through prudent financial and cost management, while ensuring our core responsibilities are carried out to the highest standards.

The IESO's prudent financial management is demonstrated by the reduction of the IESO's usage fee by more than 10 per cent in 2007, following a greater than five per cent reduction in 2006. In addition, the IESO issued a \$13.6 million rebate to customers in 2006 and will rebate \$12.7 million to customers in 2007. The IESO's total operating costs have been reduced each year since 2003.

In 2006, the IESO took steps to enhance the reliability of the system through the introduction of two new market mechanisms: the Day-Ahead Commitment Process and the Emergency Load Reduction Program. Improved dispatch processes and intertie transaction protocols, as well as good performance from generators and transmitters, also helped the IESO to reliably manage the high demands for electricity last summer.

Last year, the IESO successfully oversaw the entry and connection processes for an additional 558 megawatts of supply capacity onto the Ontario power grid.

The introduction of the semi-annual Ontario Reliability Outlook in 2006 also served to highlight reliability concerns and monitor the progress of inter-related generation, transmission and demand management projects underway to meet future reliability requirements.

Our continuing objective throughout 2007 is to act in the interests of the people of Ontario to provide reliable, competitively-priced and sustainable electricity service.



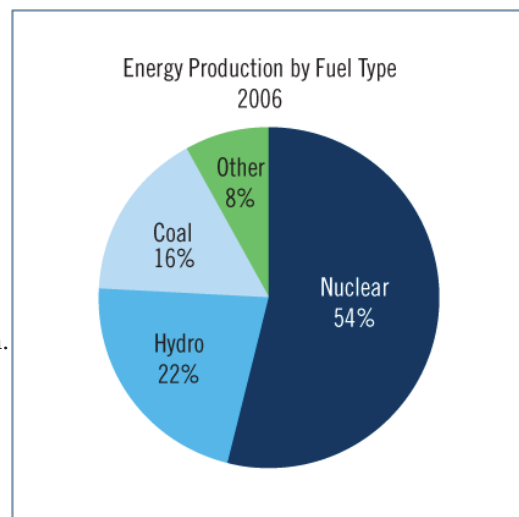
Paul Murphy
President and Chief Executive Officer

2006 Highlights

The addition of new generating capacity, lower overall annual demand, good performance from existing generators and moderate weather all helped create a positive electricity supply picture for Ontario in 2006.

A new record for peak demand of 27,005 megawatts (MW) was set on August 1, 2006. As a result of improved supply conditions, moderate summer weather and the implementation of new market mechanisms, IESO's reliance on the use of emergency control actions was reduced compared to the summer of 2005, despite some high demand periods. There were only two days of public appeals to reduce consumption in 2006, compared to 12 days of public appeals made in 2005. There was also a decreased reliance on imports making Ontario a net exporter for the first time since 2000. In 2006, Ontario exported 11.4 terawatt hours (TWh) of energy and imported 6.2 TWh. The number of hours in which demand and operating reserve exceeded available domestic generation capacity was 246 hours compared to 283 hours in 2005.

Total annual demand for electricity declined to 151 TWh, compared to 157 TWh in 2005. Nuclear facilities provided 84.4 TWh or 54 per cent of the supply mix for Ontario. Hydroelectric generators supplied 22 per cent or 34.8 TWh. Generation from coal-fired facilities was down three per cent from the previous year, accounting for 16 per cent or 25 TWh. Other fuels, including oil, gas and alternative sources, supplied the remaining eight per cent, or 11.8 TWh. Output from Ontario's wind facilities continued to make an increasing contribution to total supply as over 300 MW of new wind capacity was installed in 2006.



More than 1,400 MW of additional generating capacity is scheduled to come on-line in Ontario during the next 18 months, including two gas-fired generating facilities that will make important contributions to maintaining reliability in and around the Greater Toronto Area.

The improved supply conditions and lower total demand in 2006 contributed to the lowest annual average weighted price since the market opened in 2002. The average price for 2006 was \$48.75 per megawatt hour (MWh), compared to \$72.14/MWh in the previous year.

In its fifth year of operation, the IESO wholesale market has almost 300 market participants, nine of which are dispatchable loads with 716 MW of potential price-responsive load.

The IESO settled approximately \$10.4 billion in transactions in 2006.

IESO Accomplishments

Reduction in Costs

The IESO recognizes the financial pressures that customers, particularly large industrial customers, are facing and continues to take a number of measures that will reduce electricity costs. In 2007, the IESO has reduced its fee by greater than 10 per cent following a more than five per cent reduction in 2006. The IESO will be providing a \$12.7 million rebate to Ontario consumers in 2007.

Day-Ahead Commitment Process

The Day-Ahead Commitment Process (DACP), introduced in June 2006, has provided greater certainty of generator availability as well as the ability to more accurately determine next day energy or capacity shortfalls. Scheduling imports day-ahead helps reduce the failure of energy imports in real-time by providing market participants with sufficient time to secure ramp and transmission resources in neighbouring markets. Imports failed at a rate of 2.82 per cent during the summer 2006, compared to 3.58 per cent for the corresponding period in 2005. During the summer 2005 the import transaction failure rate during the peak demand week was much greater than in summer 2006. For example, during the 2005 peak week of July 11 to July 15, eight per cent of import transactions failed for reasons within participant control. During the peak week of summer 2006, July 28 to August 3, only four per cent of import transactions failed for reasons within participant control, resulting in a reduction of 50 per cent over 2005.

Emergency Load Reduction Program

The Emergency Load Reduction Program (ELRP), introduced in June 2006, provides incentives to customers who reduce their electricity consumption or use backup generation when the supply-demand situation is tight. There are currently 11 market participants and almost 320 MW registered capacity in the ELRP. Notifications for activation of ELRP were issued on two occasions this summer, on August 1 and August 2, resulting in the submission of 69 MW and 43 MW of offers respectively.

Implementation of Real-Time Intertie Transaction Failure Charges

The reduction in intertie failures follows the implementation in June 2006 of Real-Time Intertie Transaction Failure charges. These charges are imposed on market participants through the settlement process for failure to deliver scheduled imports or exports when the failure is under the control of the market participant.

Ontario Reliability Outlook

To better identify and encourage resolution of emerging reliability concerns, the IESO introduced the Ontario Reliability Outlook (ORO) which reports on the progress of inter-related generation, transmission and demand management projects underway to meet future reliability requirements.

The first issue of the ORO published in February 2006 highlighted the need for new supply and facilities in the Greater Toronto Area (GTA), including central Toronto. In response to that need, the Minister of Energy issued a directive to construct the Portlands Energy Centre to deliver 550 MW of new supply to central Toronto and called for 300 MW of conservation and demand management in Toronto by 2010. Almost 1,500 MW of new generation is slated to come in service to address overloading concerns on the transmission system in the western region of the GTA. Construction of the 860 MW Sithe Goreway gas-fired generation facility is underway. In addition, the 600 MW Halton Hills gas-fired generating station is scheduled to be brought on-line in 2010.

The June issue of the ORO highlighted the change in nature of Ontario's consumption patterns from a winter to a summer peaking jurisdiction as a result of the continuous increase in air conditioner load. In addition it identified a significant reduction in the energy production capacity of hydroelectric resources that can be relied on during the summer peak periods. The 2,500 to 3,000 MW overall increase to forecast resource requirements highlighted the need to maintain the operation of coal generating facilities beyond the Provincial Government's announced shutdown dates. The Government has since directed the Ontario Power Authority and the IESO to jointly develop a coal transition plan to achieve the phase-out of coal while maintaining electricity supply reliability.

Role of IESO in Smart Metering Initiative

In July 2006, the Ministry of Energy appointed the IESO to coordinate and project manage implementation activities in support of the Government's Smart Metering Initiative. Under this arrangement, the IESO is responsible for the delivery of Meter Data Management/Repository (MDM/R) functionality, including all interfaces between the MDM/R and local distribution companies' smart metering and customer information systems.

Ontario's Smart Metering Initiative can enhance the reliability of the power system by providing customers with the tools they need to help shift their electricity use to off peak hours. By shifting electricity use to off peak hours, customers can help reduce the need for new expensive generating facilities that would only be required for short duration during higher than normal peak periods.

Local distribution companies are on track to install 800,000 smart meters by the end of 2007. The Ontario Smart Metering Initiative calls for smart meters to be installed throughout the province by the end of 2010.

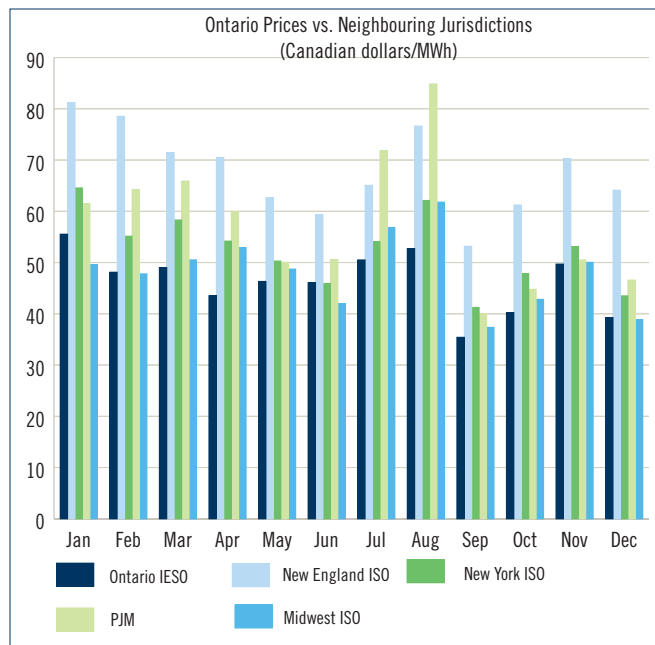
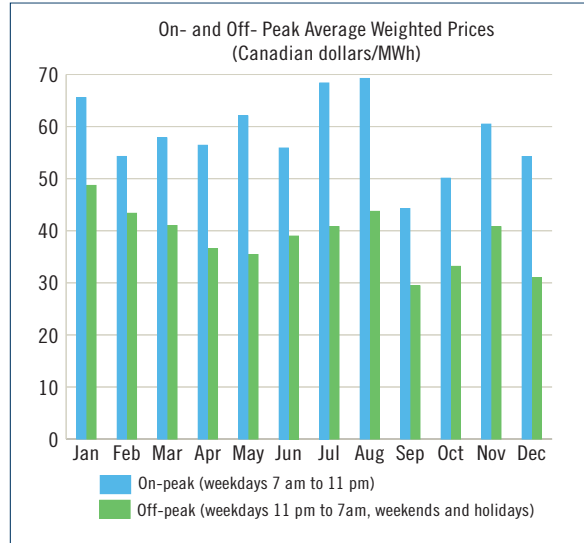
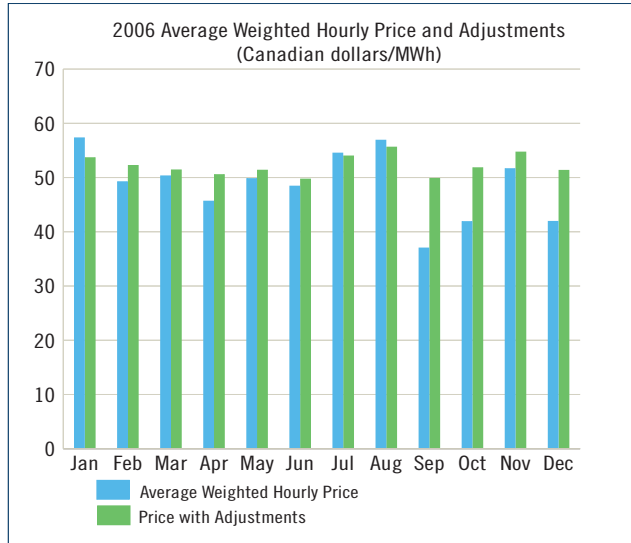
Customer Education

The IESO continues to address the energy management issues of the more than 50,000 businesses and large industrial customers who pay the wholesale price for electricity. Customer education initiatives during 2006 included seminars, workshops, trade shows and brochures such as *Managing your Electricity Costs: A Guide for Business*. In addition, the *2006 Ontario Electricity Calendar* was distributed through local distribution companies to over 9,000 of their largest customers as a educational tool explaining how Ontario's electricity market works and providing energy management tips.

Audit Report Highlights Positive Operations

The IESO's program to attract new employees is one of the potential Examples of Excellence identified in the recent Reliability Readiness Audit from the North American Electricity Reliability Corporation (NERC). The IESO was praised for its extensive use of co-op students, providing an opportunity to evaluate potential employees and ensure skilled workers are available to replace those retiring. Also cited as a potential Example of Excellence was the gas-electric interdependency assessment initiative by which the IESO will develop procedures with Ontario's gas pipeline operators and distributors to ensure that neither the gas nor electricity infrastructure is put at risk by the other's operations, either in real-time or in planning. The audit team praised the IESO's ORO and 18-Month Outlook which they called "model documents for presenting reliability assessments." Overall, the NERC Reliability Readiness Audit found the IESO has the necessary systems, tools, processes and personnel to operate its area.

Market Year in Review - Price



Management Report

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Independent Electricity System Operator are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Independent Electricity System Operator are described in the Summary of Significant Accounting Policies contained in Note 2 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to February 6, 2007.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by PricewaterhouseCoopers LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

On behalf of management,



Paul Murphy
President and Chief Executive Officer
Toronto, Canada
February 6, 2007



Gary Sherkey
Vice President – Corporate Services
Chief Financial Officer and Treasurer
Toronto, Canada
February 6, 2007

Auditors' Report

February 6, 2007

To the Board of Directors of the Independent Electricity System Operator (IESO):

We have audited the statement of financial position of the IESO as of December 31, 2006 and the statements of operations and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the IESO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IESO as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Statement of Operations and Accumulated Surplus

(in thousands of Canadian dollars)	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
	\$	\$
REVENUES		
System fees (Note 6)	132,015	143,273
Other revenue	7,622	4,969
TOTAL REVENUES	139,637	148,242
EXPENSES		
Labour	76,096	65,098
Computer services, support & equipment	9,728	10,413
Contract services & consultants	7,018	8,058
Telecommunications	2,706	2,761
Other costs	5,047	5,656
Amortization	32,353	47,392
TOTAL EXPENSES	132,948	139,378
Income Before Interest and Investment Income	6,689	8,864
Interest and investment income	1,731	1,659
Interest expense & financing charges	(7,959)	(9,330)
NET INCOME FOR THE YEAR	461	1,193
ACCUMULATED SURPLUS - BEGINNING OF YEAR	7,500	21,307
Transfer to Ontario Power Authority (Note 9)	-	(15,000)
ACCUMULATED SURPLUS - END OF YEAR (Note 6)	7,961	7,500

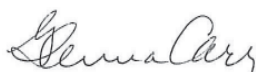
See accompanying notes to Financial Statements.

Statement of Financial Position

(in thousands of Canadian dollars)	As at December 31, 2006	As at December 31, 2005
	\$	\$
ASSETS		
Current assets		
Cash & cash equivalents	3,565	9,631
Temporary investments	-	5,980
Prepaid expenses & receivables	24,639	22,621
	28,204	38,232
Property & Equipment (Note 3)		
In service	113,051	127,886
Construction-in-progress	4,787	4,027
	117,838	131,913
Other Assets		
Long-term investments (Note 4)	12,585	9,912
Prepaid pension cost (Note 8)	12,471	21,856
Deferred costs - smart metering initiative	1,636	-
	26,692	31,768
TOTAL ASSETS	172,734	201,913
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities (Note 5)	21,073	19,894
Accrued interest on long-term debt	1,030	1,030
Short-term debt (Note 7)	15,000	-
Rebates to market participants (Note 6)	12,699	13,560
	49,802	34,484
Long-term Debt (Note 7)	78,200	128,200
Accrual for Employee Future Benefits Other than Pensions (Note 8)	36,771	31,729
TOTAL LIABILITIES	164,773	194,413
ACCUMULATED SURPLUS (Note 6)	7,961	7,500
TOTAL LIABILITIES & ACCUMULATED SURPLUS	172,734	201,913

See accompanying notes to Financial Statements.

On behalf of the Board:



Glenna Carr
Chair
Toronto, Canada
February 6, 2007



James Hinds
Chair, Audit Committee
Toronto, Canada
February 6, 2007

Statement of Cash Flows

(in thousands of Canadian dollars)	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	461	1,193
Adjustments for non-cash items:		
Amortization	32,353	47,392
Prepaid pension cost	17,746	8,406
Other employee future benefits cost	6,426	4,470
	56,986	61,461
Changes in non-cash balances related to operations:		
Increase in accounts payable and accrued liabilities	663	337
Increase/(decrease) in rebates to market participants	(861)	13,560
Increase in prepaid expenses and receivables	(2,018)	(2,433)
	(2,216)	11,464
Other:		
Contribution to pension fund	(8,361)	(8,165)
Payment of employee future benefits	(1,384)	(1,312)
	(9,745)	(9,477)
Cash provided from operating activities	45,025	63,448
INVESTING ACTIVITIES		
Net sale of temporary investments	5,980	39,861
Purchase of long-term investments	(2,673)	(1,896)
Investment in deferred costs- smart metering initiative	(1,636)	-
Investment in property & equipment	(17,762)	(9,084)
Cash provided from/(used in) investing activities	(16,091)	28,881
FINANCING ACTIVITIES		
Net retirement of debt (Note 7)	(35,000)	(75,000)
Transfer to Ontario Power Authority (Note 9)	-	(15,000)
Cash used in financing activities	(35,000)	(90,000)
NET CHANGE IN CASH & CASH EQUIVALENTS	(6,066)	2,329
CASH & CASH EQUIVALENTS - BEGINNING OF YEAR	9,631	7,302
CASH & CASH EQUIVALENTS - END OF YEAR	3,565	9,631

See accompanying notes to Financial Statements.

Supplementary Information:

(in thousands of Canadian dollars)

Interest Paid	7,781	9,698
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Notes to Financial Statements

1. NATURE OF OPERATIONS

Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation, created by statute effective on April 1, 1999 pursuant to Part II of the *Electricity Act, 1998*. As set out in the *Electricity Act*, the IESO operates pursuant to a licence granted by the Ontario Energy Board (OEB). The objects of the IESO as contained in the *Electricity Act*, and amended in the *Electricity Restructuring Act, 2004* are as follows:

- to exercise the powers and perform the duties assigned to the IESO under the *Electricity Restructuring Act, 2004*, the market rules and its license;
- to enter into agreements with transmitters giving the IESO the 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 the *Electricity Restructuring Act, 2004*;
- to participate in the development, by any standards authority, of standards and criteria relating to the reliability of the transmission systems;
- to work with the responsible authorities outside Ontario to co-ordinate the IESO's activities with their activities;
- to collect and provide information to the Ontario Power Authority (OPA) and the public relating to the current and short-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs; and
- to operate the IESO-administered markets to promote the purposes of the *Electricity Restructuring Act, 2004*.

The objects were amended by Ontario Regulation 452/06 under the *Electricity Act* made on August 24, 2006. The regulation came into force on September 22, 2006. The additional objects are as follows:

- to plan, manage and implement the smart metering initiative or any aspect of the initiative;
- to oversee, administer and deliver the smart metering initiative or any aspect of the initiative; and
- to establish and enforce standards and criteria relating to the reliability of transmission systems.

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

On February 14, 2006 the OEB approved the IESO's requested expenditures, revenue requirements and fees for fiscal 2006.

For its 2007 application, the IESO obtained permission of the Minister to submit its proposed 2007 expenditures, revenue requirements, and fees to the OEB on October 17, 2006. The IESO filed its submission for review with the OEB on October 30, 2006. The OEB approved the IESO's proposed usage fee for 2007 of \$0.815/MWh on an interim basis, effective January 1, 2007, pending completion of its review of the IESO's requested 2007 expenditures, revenue requirements and fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of financial statement preparation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

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 exports. System fees are recognized as revenue at the same time as the electricity is withdrawn. Rebates are recognized in the year in which the approved regulatory deferral account, before such rebates, exceeds regulated limits.

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 services the IESO performs and charges on a recovery basis, interest on funds passing through market settlement accounts, as well as fines and penalties passing through the market adjustment account. Such revenue is recognized as it accrues.

c) Cash and cash equivalents

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

d) Temporary investments

Short-term money market investments with original maturities of 90 days or longer are classified as temporary investments and valued at amortized cost. Premiums and discounts are amortized to income using the constant yield method over the period to maturity.

e) Construction-in-progress

Construction-in-progress generally relates to the costs of physical facilities, hardware and software, and includes costs paid to vendors, internal and external labour, consultants, an applicable share of overhead, and an allocation of interest related to funds borrowed to finance the project. Costs relating to construction-in-progress are transferred to property and equipment in service when the asset under construction is deemed to be ready for use.

f) Property and equipment in service

Property and equipment are capitalized at cost, which comprises materials, labour, external support, overheads, and interest applicable to capital activities.

g) Amortization

The capital cost of property and equipment 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:

<u>Class</u>	<u>Estimated Average Service Life</u>
Facilities	40
Market Systems and Applications	4 to 8
Infrastructure and Other Assets	4 to 8

Gains and losses on sales of property and equipment and losses on premature retirements are charged to operations. Removal costs are charged to operations as incurred.

The estimated service lives of property and equipment and the significant assumptions underlying the estimates of removal costs are subject to periodic review. The impacts of changes in the estimated lives of property and equipment are amortized on a prospective basis. The most recent review was completed in fiscal 2006.

h) Long term investments

Portfolio investments are carried at cost less any provision for other than temporary losses.

i) Pension and other post-employment benefits

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 market rates 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 market-related values for equities (whereby fund assets are calculated using the smoothed value of assets over five years) and market values for fixed income securities, 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 amortization of plan amendments on a straight-line basis over the expected average remaining service life of the employees covered by the plan. Actuarial gains (losses) arise from, amongst 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. The excess, if any, of the cumulative unamortized net actuarial gain or loss over 10% of the greater of the projected benefit obligation and the market-related value of plan assets is also 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 and OPEB plans is 11 years (2005: 11 years).

j) Fair value of financial instruments

The carrying amounts reported in the balance sheet for financial instruments, comprising current assets and current liabilities, approximate to their fair values. The fair value of long term investments is disclosed in Note 4. The fair value of the long-term debt is not readily available.

k) Derivative Financial Instruments

The IESO enters into foreign exchange forward contracts, for risk management purposes. Foreign exchange forward contracts are commitments to purchase foreign currencies for delivery at a specified date in the future at a fixed rate. The IESO enters into such contracts only for known or anticipated transactions that will require settlement in foreign currency, and does not use any other derivative instruments.

The IESO is exposed to changes in the value of such contracts prior to their settlement as a result of movements in the underlying foreign exchange rates. Senior management responsible for cash management manages this risk.

Where such forward contracts meet the criteria for hedge accounting, changes in their values resulting from exchange rate movements are not reflected in the financial statements. Where such contracts do not meet the criteria for hedge accounting, they are recorded at their fair value at the balance sheet date, with changes in their value recognized in the statement of operations.

l) Foreign exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated in Canadian dollars at the rate prevailing at that date. Exchange gains and losses arising on settlement of foreign exchange transactions are reported in the statement of operations at the date at which the transactions are settled.

m) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles 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. Actual results could differ from those estimates.

3. PROPERTY AND EQUIPMENT

(in thousands of Canadian dollars)	As at December 31, 2006			As at December 31, 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value*
	\$	\$	\$	\$
Property and equipment in service				
Facilities	49,540	9,342	40,198	40,818
Market Systems and Applications	218,884	159,581	59,303	78,396
Infrastructure and Other Assets	83,773	70,223	13,550	8,672
	352,197	239,146	113,051	127,886
Construction-in-progress	4,787	-	4,787	4,027
	356,984	239,146	117,838	131,913

* Certain 2005 comparative figures above have been reclassified to conform to 2006 presentation.

In 2006 the impact of adjustments to management's estimates of remaining asset service lives was a decrease in amortization expense of \$4,933,698. In 2005 no adjustments were made to management's estimates of remaining asset service lives.

Interest capitalized to construction-in-progress during 2006 was \$24,757 (2005 - \$nil).

4. LONG TERM INVESTMENTS

Long term investments represent a balanced portfolio of pooled funds. The market value of these investments was \$14,450,453 as at December 31, 2006 (2005 - \$11,365,515).

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of Canadian dollars)	As at December 31, 2006	As at December 31, 2005
	\$	\$
Relating to property and equipment	3,786	3,270
Relating to operations	17,287	16,624
	21,073	19,894

6. ACCUMULATED SURPLUS AND REBATES TO MARKET PARTICIPANTS

During 2006 the IESO recognized rebates to market participants of system fees of \$12,699,435 representing amounts accumulated in the IESO's approved regulatory deferral account in excess of \$5.0 million (2005 - \$13,560,242). As at December 31 the components of the IESO's Accumulated Surplus were as follows:

(in thousands of Canadian dollars)	As at December 31, 2006	As at December 31, 2005
	\$	\$
Approved regulatory deferral account	5,000	5,000
Accumulated market penalties and fines	2,961	2,500
	7,961	7,500

7. DEBT

(in thousands of Canadian dollars)	As at December 31, 2006	As at December 31, 2005
	\$	\$
Notes payable to:		
Ontario Electricity Financial Corporation (OEFC)	78,200	78,200
The Province of Ontario	-	50,000
Long-term debt	78,200	128,200
Short-term debt (credit facility)	15,000	-
	93,200	128,200

Note payable to OEFC

The long-term note payable to Ontario Electricity Financial Corporation (OEFC) is unsecured, bears interest at 7.9% per annum and is repayable in full on May 1, 2009. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 1 and November 1 of each year.

Note payable to Province of Ontario

On March 31, 2006 the IESO repaid the principal balance outstanding to Province of Ontario of \$50.0 million.

Credit facility

IESO has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a Canadian chartered bank, under which the bank will make available to the IESO an amount up to \$60.0 million; this amount was increased on March 30, 2006 from \$10.0 million. As at December 31, 2006, \$15.0 million was drawn on the credit facility by way of issuance of Bankers' Acceptances at an interest rate of 4.65%. Advances under this facility are available in Canadian dollars by way of a prime rate loan or the issuance of Bankers' Acceptances at market rates plus a stamping fee of 30 basis points per annum. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum.

8. 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)	2006 Pension Benefits \$	2005 Pension Benefits \$	2006 Other Benefits \$	2005 Other Benefits \$
Accrued benefit obligation	388,585	363,776	59,714	55,342
Fair value of plan assets	296,144	282,313	-	-
Funded status	(92,441)	(81,463)	(59,714)	(55,342)
Employer contribution after measurement date	2,055	23	357	305
Unamortized past service costs	4,417	5,115	428	549
Unamortized net actuarial loss	98,440	98,181	22,158	22,759
Prepaid (accrued) benefit cost recognized in the statements of financial position	12,471	21,856	(36,771)	(31,729)

Prepaid benefit cost is shown net of valuation allowance of \$nil (2005: \$nil).

Registered Pension Plan Assets

As at the measurement date of September 30, registered pension plan assets were split by market value between the following categories:

	2006	2005
Equity securities	59.0%	59.1%
Debt securities	40.8%	38.5%
Cash equivalents	0.2%	2.4%
	100.0%	100.0%

Summary of principal assumptions used to calculate benefit obligations

	2006 Pension Benefits	2005 Pension Benefits	2006 Other Benefits	2005 Other Benefits
Discount rate at end of the period	5.0%	5.1%	5.0%	5.1%
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

The assumed hospital and drug cost increase is 9.0% per annum initially. The rate is assumed to begin decreasing gradually commencing October 1, 2007 to a rate of 5.0% in the year 2014 and remain at that level thereafter. Dental costs are assumed to increase by 6.0% per annum initially and to begin decreasing commencing October 1, 2007 to a rate of 4.5% in the year 2009 and remain at that level thereafter.

Summary of benefit costs and plan contributions

(in thousands of Canadian dollars)	2006 Pension Benefits \$	2005 Pension Benefits \$	2006 Other Benefits \$	2005 Other Benefits \$
Benefit cost	17,746	8,406	6,426	4,470
Employer contributions	6,329	8,149	1,331	1,290
Plan participants' contributions	2,014	1,962	-	-
Benefits paid	11,450	9,598	1,331	1,290

The most recent actuarial valuation of the registered pension plan for funding purposes was at January 1, 2005, and the date of the next required valuation is January 1, 2008.

Summary of principal assumptions used to calculate benefit costs

	2006 Pension Benefits	2005 Pension Benefits	2006 Other Benefits	2005 Other Benefits
Discount rate at the beginning of the period	5.1%	6.25%	5.1%	6.25%
Expected return on plan assets	7.0%	7.0%	-	-
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Rate of indexing of pension benefits	2.5%	2.5%	-	-

9. TRANSFER TO ONTARIO POWER AUTHORITY

On February 18, 2005, the Government of Ontario issued Ontario Regulation 47/05 to transfer \$15.0 million of the IESO's accumulated surplus to the Ontario Power Authority. Accordingly, in 2005, the IESO

transferred \$15.0 million to the Ontario Power Authority.

10. SEGMENTED INFORMATION

IESO consists of a single business engaged in the operation of the wholesale electricity system in Ontario.

11. COMMITMENTS

Operating commitments

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

(in thousands of Canadian dollars)	\$
2007	2,144
2008	2,519
2009	1,881
2010	1,624
2011	1,237

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