

## IESO Financial Update

### Actual 2008 Financial Results (unaudited)

The following table outlines the IESO's 2008 actual results. As these figures are not yet audited, they are subject to change.

(\$ millions)	2008 Actual Unaudited	2008 Budget	Variance
Usage Fees	133.9	128.5	5.4
Market-related Interest Income	-	5.0	(5.0)
Cost Recovery for Service	1.8	2.0	(0.2)
<b>Total Revenues</b>	<b>135.7</b>	<b>135.5</b>	<b>0.2</b>
OM&A Program Costs	88.2	89.9	1.7
OM&A Pension Expense	13.1	11.3	(1.8)
Amortization	20.8	29.3	8.5
Net Interest	7.9	5.0	(2.9)
<b>Total Costs</b>	<b>130.0</b>	<b>135.5</b>	<b>5.5</b>
<b>Operating Surplus/(Deficit)</b>	<b>5.7</b>	<b>-</b>	<b>5.7</b>
Accumulated Operating Surplus (opening balance)	0.7	0.7	-
<b>Rebates to Market Participants</b>	<b>(1.4)</b>	<b>-</b>	<b>(1.4)</b>
<b>Accumulated Operating Surplus (closing balance)</b>	<b>5.0</b>	<b>0.7</b>	<b>4.3</b>

The initial filing (Exhibit B, Tab 1, Schedule 1, pages 12-21) included projected 2008 results and included explanations for those projected variances. The following table details the variances from the actual results to the 2008 projections included in the IESO 2009-2011 Business Plan.

(\$ millions)	2008 Actual Unaudited	2008 Projection in the 2009-2011 B/Plan	Variance
Usage Fees	133.9	132.5	1.4
Market-related Interest Income	-	-	-
Cost Recovery for Service	1.8	1.8	-
<b>Total Revenues</b>	<b>135.7</b>	<b>134.3</b>	<b>1.4</b>
OM&A Program Costs	88.2	90.1	1.9
OM&A Pension Expense	13.1	13.1	-
Amortization	20.8	20.9	0.1
Net Interest	7.9	5.6	(2.3)
<b>Total Costs</b>	<b>130.0</b>	<b>129.7</b>	<b>(0.3)</b>
<b>Operating Surplus/(Deficit)</b>	<b>5.7</b>	<b>4.6</b>	<b>1.1</b>
Accumulated Operating Surplus (opening balance)	0.7	0.7	-
<b>Rebates to Market Participants</b>	<b>(1.4)</b>	<b>(0.3)</b>	<b>1.1</b>
<b>Accumulated Operating Surplus (closing balance)</b>	<b>5.0</b>	<b>5.0</b>	<b>-</b>

Revenues from cost recovery for service and OM&A pension expense were consistent and amortization was largely consistent with the 2008 projection in the IESO 2009-2011 Business Plan.

#### Usage Fees

Actual usage fee revenues for 2008 are \$133.9 million, approximately \$1.4 million higher than the 2008 projection included in the 2009-2011 Business Plan. The positive variance was the net result of higher than forecasted exports partially offset by lower than forecast domestic demand. The following table details the variance in terawatt hours (TWh).

TWh	2008 Actual Unaudited	2008 Projection in the 2009-2011 B/Plan	Variance
Ontario Demand (net of line losses)	145.3	146.6	(1.3)
Exports	22.2	19.3	2.9
<b>Total</b>	<b>167.5</b>	<b>165.9</b>	<b>1.6</b>

### OM&A Program Costs

(\$ millions)	2008	2008	Variance
	Actual Unaudited	Projection in the 2009-2011 B/Plan	
Staff Costs	62.9	62.6	(0.3)
Computer Support, Maintenance & Equipment	9.0	9.3	0.3
Contract Service & Consultants	7.0	8.3	1.3
Administration	6.4	6.8	0.4
Telecommunications	2.9	3.1	0.2
<b>Total OM&amp;A Program Costs</b>	<b>88.2</b>	<b>90.1</b>	<b>1.9</b>

OM&A program costs related to staff costs; computer support, maintenance & equipment; and telecommunications were largely consistent with the 2008 projections included in the 2009-2011 Business Plan. Contract services and consultants were \$1.3 million below the projected cost level as a result of: vacancies throughout the year within the Board of Directors and the Technical Panel (\$0.2 million); a revision to the approach for the consumer's forum (\$0.2 million); lower than forecasted costs associated with stakeholder engagement and other associated activities (\$0.2 million); intervenor costs being lower than expected (\$0.1 million); scope reductions relating to the IESO's involvement in the Western Climate Initiative (\$0.1 million); business process work in Finance being slightly modified and resourced internally and investigation into International Financial Reporting Standards (IFRS) starting later than originally (\$0.1 million); general IT expert consulting not being required (\$0.1 million); lower than forecasted demands for external legal support (\$0.1 million); less than forecasted external support required in respect of expert compensation and benefits counsel and other human resource initiatives (\$0.1 million); along with numerous other minor variances that total \$0.1 million. Administration costs were \$0.4 million below the 2008 projection in the business plan principally because maintenance and replacement work on lighting was much less than expected.

### Net Interest

Actual 2008 net interest expense for 2008 is \$7.9 million, an increase of \$2.3 million from the business plan submission. The increased expense is a result of \$2.3 million in investment losses on the IESO's long-term investments (a balanced portfolio of mutual funds established to notionally fund the pension obligations outside of the registered pension plan) over the last portion of 2008 as compared to forecasted income of \$0.4 million; a \$0.4 million increase in the reserve on the corporate asset-backed commercial paper (ABCP) investments; and \$0.2 million higher than expected interest income on other corporate investments due to higher than expected cash balances. The unfavourable variances were the result of negative returns on global equity markets and a reduction in interest paid on investments.

These negative variances were partially offset by gains associated with foreign exchange contracts for U.S. dollar costs which resulted from the IESO hedging some of its U.S. dollar exposures at a time when the Canadian dollar was at parity with the U.S. dollar. The following table details the variance in 2008 net interest expense.

(\$ millions)	2008 Actual Unaudited	2008 Projection in the 2009-2011 Business Plan	Variance
Interest on debt	6.2	6.2	-
Investment income on receivable from SME	(0.3)	(0.3)	-
Return on investments	2.3	(0.5)	(2.8)
Financing Charges and Foreign Exchange	(0.2)	0.3	0.5
Capitalized Interest	(0.1)	(0.1)	-
<b>Net Interest Expense</b>	<b>7.9</b>	<b>5.6</b>	<b>(2.3)</b>

## 2009 Financial Outlook

The following table details the IESO's projected 2009 financial results as at the time of filing. The revised forecast reflects: any energy volume changes within the latest IESO 18-month outlook; the actual discount rate as of the IESO's measurement date of September 30, 2008 for pension and other post employment benefits; revised interest rate and financing charges forecasts on borrowings that reflect more recent capital market rates and further work associated with the IESO refinancing its debt in the first half of 2009; and management's most recent estimated market values for the IESO and real-time market ABCP holdings.

(\$ millions)	2009 Projection	2009 Budget	Projected Variance
Usage Fees	124.0	124.7	(0.7)
Market-related Interest Income	0.5	3.6	(3.1)
Cost Recovery for Service	2.0	2.0	-
<b>Total Revenues</b>	<b>126.5</b>	<b>130.3</b>	<b>(3.8)</b>
OM&A Program Costs	92.7	93.1	0.4
OM&A Pension Expense	12.0	13.3	1.3
Amortization	22.4	22.4	-
Net Interest	2.7	1.5	(1.2)
<b>Total Costs</b>	<b>129.8</b>	<b>130.3</b>	<b>0.5</b>
<b>Operating Surplus/(Deficit)</b>	<b>(3.3)</b>	<b>-</b>	<b>(3.3)</b>

Accumulated Operating Surplus (opening balance)	5.0	5.0	-
<b>Accumulated Operating Surplus (closing balance)</b>	<b>1.7</b>	<b>5.0</b>	<b>(3.3)</b>

### Usage Fees

Projected usage fee revenues for 2009 are \$124.0 million, approximately \$0.7 million lower than budget. This variance is a result of a reduced projection in Ontario energy demand in 2009 from 151.7 TWh to 150.9 TWh. The following table details the most recent energy volume forecast/assumption for 2009.

TWh	2009 Projection	2009 Budget	Projected Variance
Ontario Demand (net of line losses)	144.2	145.0	(0.8)
Exports	6.7	6.7	-
<b>Total</b>	<b>150.9</b>	<b>151.7</b>	<b>(0.8)</b>

### Market-related Interest Income

Projected revenues from market-related interest income are \$0.5 million for 2009. The reduction of \$3.1 million is a result of changes in capital markets and is explained in detail below:

(\$ millions)	2009 Projection	2009 Budget	Projected Variance	Explanation
Actual non-ABCP investment income in 2007	4.1	4.1	-	No change
Actual non-ABCP investment income in 2008	2.7	3.1	(0.4)	Interest rates on investments were lower than projected.
Actual ABCP investment income in 2008	0.6	-	0.6	Includes interest relating to 2008 and received in January 2009.
Budgeted market-related investment income in 2009	0.6	2.7	(2.1)	Interest rate projection revised from 3.24% to 0.75%.
Budgeted interest on ABCP investments in 2009	0.2	0.6	(0.4)	Interest rate projection revised from 2.5% to 0.5%.
Projected loss in ABCP value at the end of 2009	(7.7)	(6.9)	(0.8)	Estimated value on ABCP notes revised from 70% to 66% due to widening of interest rate spreads.
<b>Total</b>	<b>0.5</b>	<b>3.6</b>	<b>(3.1)</b>	

### OM&A Program Costs/OM&A Pension Expense

The revised outlook for OM&A program costs and OM&A pension expense are a result of an actual discount rate as of September 30, 2008 of 6.1% as compared to the assumption of 5.4% in the business plan. The increase in discount rate has a favourable impact on both the OM&A pension expense of \$1.3 million and the other post employment benefits of \$0.4 million within the OM&A program costs.

### Net Interest

Projected net interest expense for 2009 is \$2.7 million, an increase of \$1.2 million from the business plan submission. The increased expense is a result of changes in the capital market and is explained in detail below:

(\$ millions)	2009 Projection	2009 Budget	Projected Variance	Explanation
Interest expense on debt	3.4	3.2	(0.2)	Projected borrowings increased from \$45.5 million to \$60.0 million to reflect projected increase in pension plan contributions and operating deficit. Projected interest rate on debt reduced from 3.85% to 3.0%, reflecting current market conditions.
Investment income on receivable from SME	(0.3)	(0.4)	(0.1)	Interest rate projection revised from 3.85% to 3.0%, consistent with projected change in rates on borrowings.
Returns on investments	(1.0)	(1.3)	(0.3)	Actual closing balance of long-term investments in 2008 lower than projected. Interest rate assumption on short-term investments revised from 3.34% to 0.9% to reflect current market conditions.
Financing Charges	0.8	0.3	(0.5)	Increase in projected extension fees by 0.15% and projected standby fees by 0.35% reflecting current market conditions.
Capitalized Interest	(0.2)	(0.3)	(0.1)	Interest rate projection revised from 3.85% to 3.0%
<b>Net Interest Expense</b>	<b>2.7</b>	<b>1.5</b>	<b>(1.2)</b>	

Overall, although the IESO is projected an operating deficit of \$3.3 million at this time, IESO management is not requesting any revision to the requested usage fee of \$0.822 per megawatt hour. As in prior years, IESO management will look for opportunities throughout the year to reduce spending while not presenting any major increase in operating risks. As well, IESO management recognizes the inherent uncertainty of budgets and forecasts and the possibility that energy volumes will not be reduced as much as budgeted, particularly in respect of exports. Finally, the projected 2009 deficit of \$3.3 million is well within the \$5.0 million deferral balance at the beginning of 2009.