Financial Statements

2014 ANNUAL REPORT

ONTARIO POWER AUTHORITY

Message from the Chair and CEO

In the past decade since the OPA was formed on January 1, 2005, we have seen a remarkable transformation of Ontario's electricity system as it has become cleaner, smarter and more reliable. The OPA's conservation, supply procurement and long-term planning initiatives have played a significant role in this advancement. These were carried out under the direction of the Ontario government and developed and implemented through extensive collaboration with our industry partners and stakeholders. Ontario's conservation, renewable energy, smart meter and supply mix initiatives have led North America. Many jurisdictions are undertaking initiatives in these areas, but only Ontario is doing them all at the same time. The OPA has supervised the expenditure of over $37 billion on our electricity system, enabling us to meet demand and to replace the aging coal fleet with new forms of energy production.

We thank all OPA employees and contractors over the years for their hard work and strong performance under pressure. We would also like to thank our predecessor Chairs, Peter Jones and John Beck, our fellow Board Directors and our first CEO, Jan Carr, for their leadership.

The OPA merged with the Independent Electricity System Operator (IESO) on January 1, 2015. The new organization was created to ensure a better and stronger future for Ontario's electricity supply. Its responsibilities include all those of the former two entities; merging them into a single entity is expected to increase operational efficiencies and contain costs. It will bring short-, medium- and long-term planning functions together. It will simplify the electricity sector for industry and consumers. And it will better align the OPA's contract incentives with the IESO's market operations to benefit ratepayers, while guarding the integrity of commercial contracts with electricity producers.

The OPA has played a significant role in the transformation under way in Ontario's electricity system over the past decade. Many of the seeds we have sown over the years are just starting to bear fruit. The work we have done has truly changed the landscape of Ontario's electricity system – in planning, in conservation and in procurement. Through our efforts, we have made our system cleaner, more sustainable and more reliable for years to come. With more robust planning than ever, an enshrined culture of conservation, innovative commercial arrangements and the talent of two great incoming organizations, the "new IESO" is poised for success.

Colin Andersen
Chief Executive Officer
Ontario Power Authority

Jim Hinds
Chair
Ontario Power Authority

Year in Review

New Conservation Framework 2015-2020

The OPA received direction from the Minister of Energy in the spring of 2014 to implement a new six-year Conservation First Framework. It is intended to achieve a total reduction in electricity consumption of 7 terawatt-hours (TWh) by 2020. Further savings from the Industrial Accelerator Program will contribute an additional 1.7 TWh within the same timeframe, to achieve a total province-wide target of 8.7 TWh in electricity savings.

Following extensive engagement with stakeholders around Ontario, the new framework was developed and took effect on January 1, 2015. By the end of 2014, nearly all 75 local distribution companies (LDCs) across Ontario had signed energy conservation agreements with the OPA, and LDCs had started to develop their six-year conservation plans. All necessary program extensions were put in place to provide a bridge to the new framework.

Conserving Electricity is Our First Supply Resource

The OPA, together with its LDC partners, created a suite of incentive programs to help residential, business, institutional, industrial, low-income and Aboriginal customers manage their energy use and to help meet the province's ambitious conservation targets, among the most aggressive in North America.

Between 2006 and 2013, Ontarians conserved 8.7 TWh of electricity, enough to power the cities of Mississauga and Oshawa in 2013.

Conservation and Innovation

The Conservation Fund marked its tenth anniversary in 2014. From its modest start of $100,000 to support five projects in 2005, the fund continues to connect innovation to market development. It now supports projects across all sectors that influence end uses, decision-making, energy-management practices and innovation in market development. In 2014, the fund awarded $8 million to support 23 new projects.

Since 2005, the Conservation Fund has committed $57 million in support to 207 projects. Recent funding priorities have been for energy storage, social benchmarking and LDC-initiated programs.

Procuring a Clean, Reliable and Cost-Effective Supply of Electricity

A major milestone was reached in 2014 when Ontario eliminated coal-fired generation. This is the single largest climate-change initiative in North America. The province's electricity sector's carbon footprint is estimated to have been reduced by 75 percent from 2005 levels.

About 7,600 megawatts (MW) of new natural gas and 7,300 MW of new renewable energy capacity from solar, wind, hydroelectricity and biogas has been brought online since 2005 through a variety of programs. These include the Feed-in Tariff (FIT) and microFIT programs for commercial and residential-scale renewable energy projects, North America's first and most comprehensive FIT program, as well as standard offer programs for hydroelectric power and combined heat and power projects. In 2014, the OPA also worked to develop a process to procure new large renewable energy projects. These initiatives are supported by funding programs that are designed to help Aboriginal communities, municipalities, public sector entities and co-ops participate in Ontario's renewable energy sector.

At the end of 2014, the OPA was managing contracts from diverse sources, including nuclear, representing about two-thirds of Ontario's electricity system.

Long-Term and Regional Planning for Ontario

Planning for the long term and regional plans remained at the forefront of the OPA's work in 2014. Long-range system planning efforts have supported the implementation of the Ministry of Energy's Long-Term Energy Plan (LTEP), released in December 2013. In early 2014, the OPA developed a series of modules that provide a detailed breakdown of the information underpinning the LTEP. These modules along with OPA quarterly updates are available online with the Ontario Energy Report at www.ontarioenergyreport.ca.

In 2014, the OPA also continued the implementation of all 18 recommendations contained in the joint IESO-OPA report on regional planning and large energy infrastructure siting.

Stakeholder engagement has been evolving in regional planning as consumers become more engaged in all aspects of the process. There are now opportunities for municipalities, First Nation and Métis communities to better integrate electricity planning with other local plans; resources are also available to assist with this effort.

The OPA continued to work toward connecting remote communities and reducing their reliance on diesel to meet their electricity needs. As a result of the OPA's continuing engagement efforts, an updated draft remote community connection plan report was released in August 2014. Transmission connection of 21 of the 25 remote communities would result in savings of about $1 billion over 40 years. The OPA also worked with the four remaining communities that are not currently economic to connect to begin to find alternative solutions.

In October, the OPA released a joint intertie study with the IESO, exploring the feasibility of firm imports from Quebec and Manitoba and their impact on Ontario electricity consumers. It concludes that significant reliance on interties through firm imports would require increased investments in transmission infrastructure, but that there are opportunities to enhance the benefits of existing interties that warrant Ontario's consideration.

Building on this report, the governments of Ontario and Quebec announced in late November an agreement that will see the two provinces strategically exchange electricity capacity. Together the OPA and IESO negotiated the agreement with Hydro-Quebec, and work continues to explore further opportunities.

Providing Value to the Ratepayer

The organization continued to reduce its costs over the past year. The OPA received 18 directives in 2014, bringing the total number of directives issued to the OPA since 2005 to 91. The number of contracts under management increased in 2014 to 23,224, representing 22,859 MW. Despite these increases, OPA expenses in 2014 were four percent lower than in 2013. Operating expenses were $57.7 million, excluding $5.6 million in 2014 merger-related costs, down from $60.2 million in 2013.

Board of Directors

James D. Hinds
Chair
Retired from TD Securities Inc., where he was a Managing Director; Newcrest Capital Inc. and CIBC Wood Gundy Inc.

Cynthia Chaplin
ICD.D, *Director*
Former Vice-Chair of the Ontario Energy Board

Michael Costello
Director and Chair, Audit Committee
Retired from BC Hydro and BC Transmission Corporation (President and CEO); Director, InTransit BC, Health Benefit Trust and Conifex Timber

Susanna Han
Director
Chief Financial Officer of Urbancorp

Adèle M. Hurley
Director
President, Hurley & Associates Inc.; Director, Program on Water Issues, Munk School of Global Affairs, University of Toronto

Ronald L. Jamieson
Director and Chair, Human Resources Committee
Retired from BMO Financial Group, where he was Senior Vice-President, Aboriginal Banking; Director, Nuclear Waste Management Organization and Denendeh Investments Inc.; Chairman, Canadian Council for Aboriginal Business, Appointed to the Order of Ontario, January 2014

Bruce Lourie
Director
President of Ivey Foundation; Director of the Consultative Group on Biological Diversity (San Francisco)

Lyn McLeod
Director and Vice Chair
Former Chair of the Ontario Health Quality Council; former Ontario representative on the Health Council of Canada; founding Chancellor of the University of Ontario Institute of Technology; past Chair of the Board of Confederation College in Thunder Bay, Appointed to the Order of Ontario, January 2014

Deborah Whale
Director
Vice-President, Clovermead Farms; Vice-Chair of Ontario Farm Products Marketing Commission

Colin Andersen
Director
Chief Executive Officer, Ontario Power Authority

Corporate Officers

James D. Hinds
Chair

Colin Andersen
Chief Executive Officer

JoAnne Butler
Vice-President, Electricity Resources

Kristin Jenkins
Vice-President, Corporate Communications

Michael Lyle
General Counsel, Vice-President, Legal, Aboriginal and Regulatory Affairs, and Corporate Secretary

Kimberly Marshall
Vice-President, Business Strategies and Solutions

Andrew Pride
Vice-President, Conservation

Amir Shalaby
Vice-President, Power System Planning

A Special Thanks to the Stakeholder Advisory Committee

The OPA established the Stakeholder Advisory Committee in late 2013 to advise its Board of Directors and management on policy issues related to the OPA's mandate. By providing a forum to receive advice and recommendations from a diverse range of interests, the committee was able to build on existing OPA consultation and engagement initiatives, including the Advisory Council on Conservation and the Aboriginal Energy Working Group.

The Stakeholder Advisory Committee was comprised of 17 people with significant expertise in Ontario's electricity sector:

Brian Bentz
Chair, Stakeholder Advisory Committee
Chief Executive Officer, PowerStream

Steve Baker
President, Union Gas Limited

John Beaucage
Member, OPA Aboriginal Energy Working Group; Principal, Counsel Public Affairs

Bryce Conrad
President and Chief Executive Officer, Hydro Ottawa

Laura Cooke
Vice-President, Corporate Relations, Hydro One Networks Inc.

Jared Donald
President, Conergy Canada

Julie Girvan
Independent, Consultant/Consumer Advocate

Valerie Helbronner
Partner, Torys LLP

Tim Gray
Executive Director, Environmental Defence

Kristin Jenkins
Vice-President, Corporate Communications, OPA

Geoff Lupton
Director, Energy, Fleet and Traffic, City of Hamilton

Brenda Marshall
Vice-President, Marketing, TransAlta

Rob Mace
President and Chief Executive Officer, Thunder Bay Hydro Electricity Distribution Inc.

Ian Rowlands
Member, OPA Advisory Committee on Conservation; Professor, Environment and Resource Studies, University of Waterloo

James Scongack
Vice-President, Corporate Affairs, Bruce Power

David Timm
Vice-President, Sussex Strategy Group

Adam White
President, Association of Major Power Consumers

Management Report

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Power Authority are the responsibility of management and have been prepared in accordance with Canadian Public Sector Accounting Standards. The significant accounting policies followed by the Ontario Power Authority are described in Note 2 of the financial statements. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions believed to be reasonable.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting. The system of internal controls we have established is designed to provide reasonable assurance over safeguarding of assets and the reliability of financial reporting and preparation of financial statements. The system includes 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 KPMG 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 the accounting standards used by management. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

ONTARIO POWER AUTHORITY

On behalf of management,

Bruce Campbell
President, Chief Executive Officer
Toronto, Canada
February 18, 2015

Kimberly Marshall
Vice-President, Corporate Services and
Chief Financial Officer
Toronto, Canada
February 18, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Ontario Power Authority

We have audited the accompanying financial statements of the Ontario Power Authority, which comprise the statement of financial position as at December 31, 2014, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Power Authority as at December 31, 2014, and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 18, 2015
Toronto, Canada

Statement of Financial Position

(in thousands of dollars)

As at December 31, 2014, with comparative figures for 2013	2014	2013
	$	$
ASSETS		
Current Assets:		
Cash and cash equivalents	138,812	76,140
Accounts receivable **(Notes 3 and 15)**	539,485	438,183
Prepaid expenses	702	359
	678,999	**514,682**
Capital assets **(Note 4)**	4,498	4,463
TOTAL ASSETS	**683,497**	**519,145**
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued liabilities **(Note 5)**	479,808	362,031
Contract deposits **(Note 6)**	16,978	23,239
Other current liabilities	81	593
	496,867	**385,863**
Deferred rent inducement, net **(Note 7)**	114	258
Other financial liabilities **(Note 8)**	181,927	99,237
Net assets:		
Internally restricted Conservation and Technology Funds **(Note 9)**	–	9,534
Invested in capital assets	4,498	4,463
Accumulated operating surplus **(Note 10)**	91	19,790
	4,589	**33,787**
Commitments **(Note 7)**		
Contingencies and guarantees **(Note 16)**		
TOTAL LIABILITIES AND NET ASSETS	**683,497**	**519,145**

See accompanying notes to financial statements

Statement of Operations

(in thousands of dollars)
Year ended December 31, 2014, with comparative figures for 2013

	2014	2013
	$	$
REVENUE		
Fees **(Note 15)**	60,206	75,934
Registration fees	2,671	1,720
Other income	18	794
	62,895	**78,448**
EXPENSES		
Compensation and benefits **(Note 13)**	32,154	33,544
Professional fees	13,649	12,453
Conservation and Technology Funds expenses **(Note 9)**	350	405
General operating costs **(Note 12)**	9,966	10,943
Amortization of capital assets	1,610	2,841
	57,729	**60,186**
Excess of revenue over expenses before amalgamation expenses	5,166	18,262
IESO-OPA amalgamation expenses **(Note 11)**	5,578	–
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	**(412)**	**18,262**

See accompanying notes to financial statements

Statement of Changes in Net Assets

(in thousands of dollars) Year ended December 31, 2014, with comparative figures for 2013	Invested in Capital Assets	Internally Restricted **(see Note 9)**	Accumulated Operating Surplus	2014 Total Net Assets	2013 Total Net Assets
	$	$	$	$	$
Balance, beginning of the year	**4,463**	**9,534**	**19,790**	**33,787**	**15,525**
Excess (deficiency) of revenue over expenses	(1,610)	–	1,198	(412)	18,262
Conservation and Technology Funds expenses **(Note 9)**	–	(350)	350	–	–
Transfer of Fund balance **(Note 9)**	–	(9,184)	9,184	–	–
Purchase of capital assets	1,645	–	(1,645)	–	–
Return of accumulated surplus **(Note 10)**	–	–	(28,786)	(28,786)	–
BALANCE, END OF THE YEAR	**4,498**	**–**	**91**	**4,589**	**33,787**

See accompanying notes to financial statements

Statement of Cash Flows

(in thousands of dollars)
Year ended December 31, 2014, with comparative figures for 2013

	2014	2013
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	(412)	18,262
Items not involving cash:		
Amortization of capital assets	1,610	2,841
Amortization of deferred rent inducement	(144)	(145)
Change in non-cash operating items **(Note 14)**	9,871	(9,580)
	10,925	**11,378**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(decrease) in other liabilities	(512)	488
Decrease in operating loan	–	(60,000)
Increase/(decrease) in other financial liabilities	82,690	(190,681)
	82,178	**(250,193)**
CASH FLOWS FROM CAPITAL ACTIVITIES		
Purchase of capital assets	(1,645)	(676)
Return of accumulated surplus **(Note 10)**	(28,786)	–
	(30,431)	**(676)**
Increase/(decrease) in cash and cash equivalents	**62,672**	**(239,491)**
Cash and cash equivalents, beginning of year	76,140	315,631
CASH AND CASH EQUIVALENTS, END OF YEAR	**138,812**	**76,140**

See accompanying notes to financial statements

Notes to Financial Statements

1. NATURE OF OPERATIONS

The *Electricity Restructuring Act, 2004*, established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with this act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario
- 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 establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources
- to engage in activities that promote electricity conservation and the efficient use of electricity
- to assist the OEB by facilitating stability in rates for certain types of customers
- to collect and provide to the public and the OEB information relating to medium and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

Bill 14, *Building Opportunity and Securing Our Future Act (Budget Measures), 2014* received Royal Assent on July 24, 2014. Schedule 7 of the Bill amends the *Electricity Act, 1998* by amalgamating the Independent Electricity System Operator (IESO) and the OPA and by continuing them as the IESO. 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 IESO and all their rights, properties and assets become the rights, properties and assets of the 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 OPA's ability, through its successor, to continue as a going concern is dependent upon its ability to obtain financing to support operations and other factors as stated above.

The OPA and its successor's creditworthiness is attested to by the following:

- the ability of the OPA to meet its obligations is provided for in legislation
- the OPA's minimal counterparty risk, given that its principal counterparty is the IESO, a creation of the province and a strong counterparty.

Due to the OPA's primary objectives, the OPA plans for revenues to fund expenses. Any variances that occur are addressed in the following year's Revenue Requirement Submission. As at November 6, 2014, the Ontario Energy Board formally approved the OPA's Revenue Requirement Submission.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation:

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards including Section PS 4200, *Government Not-for-Profit Organizations (Standards)*.

b) Revenue recognition:

Fees earned by the OPA are based on OEB-approved rates for electricity withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is earned.

Amounts received in the current year that relate to services and programs to be approved and/or provided in future periods are deferred until they are approved and/or provided.

c) Cash and cash equivalents:

Cash and cash equivalents are comprised of bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 90 days.

d) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service Life
Furniture and equipment	10 years
Computer hardware	4 years
Computer software	3 to 5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

e) Employee pension benefits:

The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA did not have sufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

g) Measurement uncertainty:

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

3. ACCOUNTS RECEIVABLE

(in thousands of dollars) As at December 31, 2014, with comparative figures for 2013	2014	2013
	$	$
Market contracts:		
Generation contracts	457,741	393,848
Conservation contracts	80,582	43,947
Renewable energy contracts	377	179
	538,700	**437,974**
Other	–	209
HST receivable	785	–
	539,485	**438,183**

4. CAPITAL ASSETS

(in thousands of dollars) As at December 31, 2014, with comparative figures for 2013	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
	$		$	$
Furniture and equipment	3,384	2,506	878	1,193
Computer hardware	4,873	4,663	210	327
Computer software	9,442	7,179	2,263	1,325
Audio-visual equipment	237	197	40	64
Telephone system	382	369	13	44
Leasehold improvements	5,219	4,125	1,094	1,510
	23,537	**19,039**	**4,498**	**4,463**

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of dollars) As at December 31, 2014, with comparative figures for 2013	2014	2013
	$	$
Accrued contract settlements	398,809	310,590
Other accrued liabilities	80,999	49,774
HST payable	–	1,667
	479,808	**362,031**

6. CONTRACT DEPOSITS

Program deposits:

The OPA receives performance security in the form of deposit amounts received from suppliers of renewable energy under the Feed-In Tariff (FIT) Program and demand response. For suppliers engaged in a contract that involves the construction of a new supply facility, the deposits are larger during the construction phase and are reduced once a project commences commercial operations. Deposits related to the FIT Program are submitted to the OPA with the supplier application and can be returned if one of the following occurs: (a) the supplier withdraws its application from the program; (b) the supplier obtains a contract with the OPA; or (c) the supplier's application is rejected by the OPA.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the supplier on request.

7. DEFERRED RENT INDUCEMENT AND OPERATING LEASE COMMITMENTS

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of $1,430. As at December 31, 2014, the deferred rent inducement, net of amortization, was $114 (December 31, 2013 – $258).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2014, the accrued liability was $55 (December 31, 2013 – $125).

Lease commitments including the deferred rent inducement and lease inducement are set to terminate by October 2015. The minimum annual payments remaining under the operating lease are as follows:

(in thousands of dollars)
As at December 31, 2014

	$
LEASE COMMITMENTS	
2015	1,294
	1,294

The OPA's successor is currently negotiating a new lease agreement to extend the current lease. This will adjust the commitment in the following years to an amount that is yet to be determined.

8. OTHER FINANCIAL LIABILITIES

Other financial liabilities and deferrals arise as a result of the *Electricity Act, 1998* and the regulations under the act and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

While prices for RPP consumers are set every six months by the OEB based on a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecasted cost of supplying electricity to all RPP consumers. When the hourly Ontario energy price (HOEP) is greater than the RPP, the OPA pays the excess amount and records a financial asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a financial liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account.

(in thousands of dollars) Year ended December 31, 2014, with comparative figures for 2013	2014	2013
	$	$
Total RPP variance before interest	190,624	109,770
Interest earned	(8,697)	(10,533)
	181,927	**99,237**

Global adjustment account:

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions results in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO-administered market. The account flows include the amounts paid and received for: the Demand Response 2 and Demand Response 3 programs, non-utility generation, the regulated nuclear generation balancing amount and the regulated hydro electric generation balancing amount. These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management, FIT Program and hydroelectric contract initiatives) that the OPA settles on a monthly basis with the IESO.

This account also includes charges related to OEB-approved non-OPA conservation programs. These programs are administered by local energy distribution companies and charges related to them flow directly between the IESO and these companies.

(in thousands of dollars) Year ended December 31, 2014, with comparative figures for 2013	2014	2013
	$	$
Demand Response 2	14,290	14,928
Demand Response 3	44,279	42,806
Non-utility generation	763,787	1,132,615
Nuclear	1,236,313	1,492,901
Hydro	156,043	260,051
OPA contracts	4,818,454	4,784,048
Global adjustment balancing amount	(7,033,166)	(7,727,349)
	–	–

9. INTERNALLY RESTRICTED CONSERVATION AND TECHNOLOGY FUNDS

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of promising new technologies to improve electricity supply or conservation. The projects are tracked based on the year of the award and expensed in the year the liability is incurred. The expenditures for projects awarded after January 2011 are recovered through the Global Adjustment Mechanism. All projects awarded funds pre-January 2011 are complete as of December 31, 2014, and any excess funds have been released from internally restricted funds to accumulated operating surplus.

(in thousands of dollars) Year ended December 31, 2014, with comparative figures for 2013	Restricted Fund	Total Expensed	Transferred to Accumulated Operating Surplus	Balance 2014	Balance 2013
	$	$	$	$	$
2005 – 2008 Conservation Fund	8,600	8,009	(591)	–	591
2009 Conservation Fund	3,000	2,546	(454)	–	454
2010 Conservation Fund	5,000	190	(4,810)	–	4,814
2005 – 2008 Technology Development Fund	3,500	2,916	(584)	–	584
2009 Technology Development Fund	1,500	1,500	–	–	85
2010 Technology Development Fund	4,500	1,755	(2,745)	–	3,006
	26,100	**16,916**	**(9,184)**	**–**	**9,534**

10. ACCUMULATED OPERATING SURPLUS

As per OPA's 2014 Revenue Requirement Submission approved by the OEB, it was determined that a balance in the Regulatory Forecast Variance Deferral account will be maintained at a maximum of $5 million. To maintain this balance, $28,786 was returned to the market in 2014.

11. IESO-OPA AMALGAMATION EXPENSES

As described in note 1, Bill 14 was amended to amalgamate the OPA and the IESO and came into force January 1st, 2015. The 2014 expenses related to this amalgamation were of a non-recurring and non-operating nature and were as follows:

(in thousands of dollars)

Year ended December 31, 2014, with comparative figures for 2013	2014	2013
	$	$
Compensation and benefits	4,989	–
Professional fees	589	–
	5,578	**–**

12. GENERAL OPERATING COSTS

(in thousands of dollars)

Year ended December 31, 2014, with comparative figures for 2013	2014	2013
	$	$
General program costs	3,238	4,956
Premises	3,352	3,742
Information technology	2,722	1,537
Office and administration	654	686
Interest expense	–	22
	9,966	**10,943**

13. PENSION PLAN

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2014, the OPA paid or accrued contributions totaling $1,996 (December 31, 2013 – $2,001) during the year.

14. CHANGE IN NON-CASH OPERATING ITEMS

(in thousands of dollars) Year ended December 31, 2014, with comparative figures for 2013	2014	2013
	$	$
Decrease/(increase) in accounts receivable	(101,302)	108,780
Decrease/(increase) in prepaid expenses	(343)	205
Increase/(decrease) in accounts payable and accrued liabilities	117,777	(112,808)
Decrease in contract deposits	(6,261)	(5,757)
	9,871	**(9,580)**

15. RELATED PARTY TRANSACTIONS

The Province of Ontario is a related party as it is the controlling entity of the OPA. The OEB, Hydro One, the IESO, OPG, the Ontario Financing Authority (OFA) and the Ministry of Energy are related parties of the OPA, through the common control of the Province of Ontario. Transactions between these parties and the OPA were as follows:

Under the *Ontario Energy Board Act, 1998*, the OPA incurs registration and license fees. Consistent with other registrants, in 2014 the OPA was allocated a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were $1,038 in 2014 (2013 – $1,025).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2014, the OPA procured $29,935 in conservation demand management (2013 – $30,214) from Hydro One and its wholly owned subsidiaries. At December 31, 2014, the OPA had a net payable to Hydro One of $8,167 (December 31, 2013 – $2,198).

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and is collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2014 was $60,206 (2013 – $75,934). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP on behalf of various market participants (see Note 8). At December 31, 2014, the OPA had a net receivable of $457,741 (December 31, 2013 – $393,848). The OPA also incurred $98 in 2014 (2013 – $123) for professional services.

The OPA has available a revolving operating facility in the amount of $975,000, provided by the OFA to fund its general operating expenses and to support the RPP variance account. The line of credit was renewed in 2013 for a three-year term from January 1, 2014, to December 31, 2016, with an interest rate of 1.17 percent. On December 31, 2014, the OPA has a $0 (December 31, 2013 – $0) outstanding balance to the OFA. In 2014, the OPA incurred $0 (2013 – $0) in interest expenses for the loan.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. CONTINGENCIES AND GUARANTEES

Contingencies:

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense recorded on the OPA's financial statements. As at December 31, 2014, in the opinion of management, no such liabilities exist.

Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of $1,000, as incurred by the energy supplier. While none of these costs have been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2014, management is not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

Guarantees:

The OPA enters into contracts with suppliers of electricity as part of its normal business operations. In some cases, these contracts require the OPA to support obligations with these entities. In 2012, the OPA entered into a letter of credit amounting to $1,349 in support of a contracted obligation. As at December 31, 2014, no amounts have been drawn on the balance.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The fair values of other financial assets and other financial liabilities are not provided because this would not give additional useful information, as they would be offset and/or would not be practical to determine.

18. FINANCIAL RISK MANAGEMENT

The OPA is exposed to financial risks in the normal course of its business operations, including market risks resulting from credit risk, liquidity risk and interest rate risk. The nature of the financial risks and the OPA's strategy for managing these risks has not changed significantly from the prior year.

a) 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 OPA is exposed directly to credit risk related to accounts receivable and bank deposits held at the chartered bank. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. Accounts receivable as of December 31, 2014, included no material items past due.

b) Liquidity risk:

Liquidity risk refers to the risk that the OPA will encounter financial difficulty in meeting obligations associated with its financial liabilities. The OPA manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and maintaining appropriate credit facilities reduce liquidity risk.

c) Interest rate risk:

The OPA's operating loan has a variable interest rate based on the Province of Ontario's cost of funds for borrowing, with a similar term as determined by the OFA plus a margin. As a result, the OPA would be exposed to interest rate risk due to fluctuations in the Province of Ontario's cost of funds for borrowing with a similar term rate.

2014 Executive Compensation Disclosure

Program Objectives

The OPA executive compensation program was an integrated program for all executive staff. It was designed to attract, retain and motivate the calibre of executives required to support the achievement of the OPA's statutory mandate, corporate vision and business objectives. Accordingly, the compensation philosophy and program had the following objectives:

- to focus executives on meeting the OPA's business objectives
- to attract qualified and talented executive staff needed to carry out the OPA's mandate
- to retain valued executive staff
- to provide flexibility to differentiate total compensation for specific executives based on individual results and demonstrated competencies
- to establish compensation levels that are responsible and defensible to stakeholders.

The philosophy underlying these objectives was that the total compensation for executive management should be sufficient, but not more than required, to attract the skills and competencies needed to carry out the OPA's mandate.

Program Governance

The Board of Directors established the objectives for the compensation program. It delegated to the Human Resources Committee of the Board of Directors the responsibility to review thoroughly the compensation objectives, policies and programs and make recommendations concerning them to the full Board of Directors for approval. In carrying out their mandate, members of the Board of Directors had access to management's perspectives as well as those of expert consultants in the compensation field. The program was reviewed at least annually in terms of business needs, program objectives and design, industry compensation trends, internal compensation relativities and external market relativities.

In addition to the formal governance and oversight structure in place for compensation matters, the OPA annually disclosed compensation levels for staff earning above $100,000 as part of its public sector salary disclosure under the *Public Sector Salary Disclosure Act (Ontario).* For the OPA, a further level of public review and assurance was provided through a statutorily required annual fee review by the OEB. Compensation matters, including management compensation and market relativities, were addressed during this review. A broad range of stakeholder groups, assisted by their legal and professional advisors, were represented in these public proceedings. The OPA was also responsive to various requests for information by the Ministry of Energy in relation to compensation matters. These include enquiries with respect to the Agency Review Panel's 2007 review and report on senior management compensation for agencies in Ontario's electricity sector.

Executive Compensation Statement

Compensation decisions may at times be affected by market factors, such as the recruitment of an executive with specialized skills and competencies or possessing unique talents in the industry. These decisions were also influenced by social, economic, legal and political factors, such as prevailing financial and employment conditions, government fiscal considerations, legislation governing compensation and societal perceptions of public sector compensation.

For the seventh consecutive year (i.e., 2008 – 2014), the OPA's Board of Directors approved a freeze on the salary structure for executives. In freezing the executive's salary structure for 2014, the OPA's Board took into consideration many of the above social, economic and legal factors, including compliance with the 2012 amendments to the *Broader Public Sector Accountability Act, 2010*.

Table 1 sets out the annual compensation for the year ended December 31, 2014, for the listed executive officers. The total cash compensation information provided below matches the information published under the *Public Sector Salary Disclosure Act (Ontario)* for the indicated period.

Table 1: Summary of Executive Compensation[1]

Name, Position Title	Year	Salary Paid	Taxable Benefits	Amounts Reported Under *Public Sector Salary Disclosure Act*[2]
Colin Andersen	2014	$601,942[3]	$1,073	$603,015
Chief Executive Officer	2013	$573,027	$1,064	$574,091
	2012	$573,027	$ 900	$573,927
Kimberly Marshall	2014	$255,172	$ 977	$256,149
Vice-President, Business Strategies and	2013	$255,172	$ 969	$256,141
Solutions (CFO)	2012	$255,172	$ 820	$255,992
Amir Shalaby	2014	$450,803	$ 948	$451,751
Vice-President, Power System Planning	2013	$449,329	$1,064	$450,394
	2012	$449,541	$ 900	$450,441
Andrew Pride	2014	$316,970	$1,073	$318,043
Vice-President, Conservation	2013	$316,970	$1,064	$318,035
	2012	$316,970	$ 900	$317,870
JoAnne Butler	2014	$371,925	$1,073	$372,998
Vice-President, Electricity Resources	2013	$371,925	$1,064	$372,989
	2012	$371,925	$ 900	$372,825

1. Executives are listed in the following order: Chief executive officer, chief financial officer, then in alphabetical order by first name.
2. Total T4 income, including taxable benefits.
3. Mr. Andersen's employment with the OPA was terminated on December 31, 2014. As such, he received a one-time only payment in the amount of $28,915.28 for accrued and unused 2014 vacation entitlement pursuant to his contract of employment.

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