



IESO Markets Financial Statements

For the year ended December 31, 2021

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Date: June 1, 2022
To: Grant Thornton LLP
From: Independent Electricity System Operator
Re: Fiscal 2021 IESO-Market's Financial Statements -
Management's Responsibility for Financial Reporting

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Management's Responsibility for Financial Reporting

The accompanying financial statements of the Independent Electricity System Operator Markets are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards except for the following:

- All remeasurement gains and losses on unsettled foreign currency transactions at the year-end will be recorded in the statement of operations when realized instead of flowing through the statement of remeasurement gains and losses in accordance with PSAS section PS 2601;
- No presentation of any budgeting information;
- No presentation of the Statement of Remeasurement Gains and Losses, Statement of Change in Net Debt; and Statement of Cash Flows;

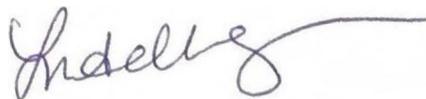
The significant accounting policies followed by the Independent Electricity System Operator Markets are described in the Summary of Significant Accounting Policies contained in Note 2 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based 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 June 1, 2022.

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 Grant Thornton LLP, a firm of independent external auditors appointed by the Board of Directors. The auditor's responsibility is to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the financial reporting provisions of the IESO Board of Directors resolution dated October 23, 2019 and the amending resolution dated April 22, 2020. The Independent Auditor's Report, which follows, outlines the scope of their examination and opinion.

INDEPENDENT ELECTRICITY SYSTEM OPERATOR MARKETS

On behalf of management,



Lesley Gallinger
President and
Chief Executive Officer
Toronto, Canada
June 1, 2022



Barbara Anderson
Chief Financial Officer and
Vice President, Corporate Services
Toronto, Canada
June 1, 2022

Independent Auditor's Report

To the Board of Directors of the Independent Electricity System Operator

Opinion

We have audited the financial statements of the Independent Electricity System Operator Markets (the "IESO-M"), which comprise the statement of financial position as at December 31, 2021, and the statement of operations and accumulated surplus for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of IESO-M for the year ended December 31, 2021 are prepared, in all material respects, in accordance with the financial reporting provisions of the IESO Board of Directors resolution dated October 23, 2019 and the amending resolution dated April 22, 2020.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the IESO-M in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Use

We draw attention to Note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist management in complying with the financial reporting provisions of the IESO Board of Directors resolution dated October 23, 2019 and the amending resolution dated April 22, 2020. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for management, the IESO Board of Directors and the Ontario Energy Board and should not be used by any other parties. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the disclosed basis of accounting 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.

In preparing the financial statements, management is responsible for assessing the IESO-M's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the IESO-M or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the IESO-M's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 IESO-M's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the IESO-M's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the IESO-M to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script.

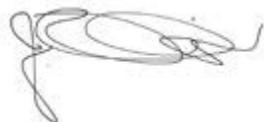
Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Canada
June 1, 2022

Statement of Financial Position

As at December 31 (in thousands of Canadian dollars)	2021	2020
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	313,981	62,899
Accounts receivable (Note 3)	1,612,894	2,001,264
Government Directed Programs receivable	-	39,716
Other receivables	32,574	32,987
Smart Metering Entity rebate receivable (Note 4)	13,671	2,459
TOTAL FINANCIAL ASSETS	1,973,120	2,139,325
LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	1,538,238	1,512,305
Debt (Note 6)	27,780	533,087
Deferred Administered Market Settlements revenue	119,497	91,474
Deferred Government Directed Programs revenue	273,934	-
Smart Metering Entity rebate payable (Note 4)	13,671	2,459
TOTAL LIABILITIES	1,973,120	2,139,325
NET FINANCIAL ASSETS AND ACCUMULATED SURPLUS	-	-

On behalf of the Board:



Joe Oliver
Chair
Toronto, Canada



David Sinclair
Director
Toronto, Canada

Statement of Operations and Accumulated Surplus

For the year ended December 31 (in thousands of Canadian dollars)	2021	2020
	\$	\$
REVENUES		
Global Adjustment (Note 7)	8,551,461	13,960,735
Government Directed Programs (Note 8)	6,459,721	5,985,821
Administered Market Settlements (Note 9)	6,687,084	4,350,075
Interest income (Note 10)	2,758	4,379
TOTAL REVENUES	21,701,024	24,301,010
EXPENSES		
Global Adjustment (Note 7)	8,551,461	13,960,735
Government Directed Programs (Note 8)	6,460,011	5,985,985
Administered Market Settlements (Note 9)	6,687,591	4,350,916
Market interest transfer to IESO (Note 10)	1,792	2,938
Interest on line of credit (Note 6)	169	436
TOTAL EXPENSES	21,701,024	24,301,010
SURPLUS	-	-
ACCUMULATED SURPLUS, BEGINNING OF YEAR	-	-
ACCUMULATED SURPLUS, END OF YEAR	-	-

See accompanying notes to financial statements

Notes to Financial Statements

1. NATURE OF OPERATIONS

As set out in Ontario's Electricity Act (the "Act"), the Independent Electricity System Operator ("IESO") operates pursuant to a licence granted by the Ontario Energy Board ("OEB") and operates the Independent Electricity System Operator Markets ("IESO-M").

The IESO-M facilitate the purchase and sale of electricity in the wholesale market between market participants and administers various government directed programs and the accompanying financial statements reflect the accounts of the IESO-M:

- as prescribed by the IESO market rules for the Ontario wholesale electricity market;
- pursuant to the Act and associated regulations; and
- pursuant to government directed programs.

These financial statements do not include the financial accounts of the IESO as the IESO is an intermediary to facilitate the settlement of IESO-M transactions. A separate and distinct set of financial statements are maintained for the IESO.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of financial statement preparation

The IESO-M is not entitled to earn any net income, surplus or deficit from any IESO-M transactions. All transactions within the IESO-M in due course are for the benefit of the market participants.

The accompanying financial statements are in compliance with an IESO Board of Directors approval which requires these financial statements to be prepared under a special purpose framework as follows:

- Canadian Public Sector Accounting Standards (PSAS) will be adopted except for the following:
 - All remeasurement gains and losses on unsettled foreign currency transactions at the year-end will be recorded in the statement of operations when realized instead of flowing through the statement of remeasurement gains and losses in accordance with PSAS section PS 2601;
 - No presentation of any budgeting information;
 - No presentation of the Statement of Remeasurement Gains and Losses, Statement of Change in Net Debt; and Statement of Cash Flows.

The accompanying financial statements reflect the following significant accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Revenue recognition

Administered Market Settlements revenue is recognized on a monthly basis consistent with the billing cycle in which the IESO-M invoices market participants. Revenues are based on the volume of energy traded through the market.

Government Directed Programs revenue is recognized in the financial statements in the period in which the events giving rise to the transfers occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

Global Adjustment revenue is recognized on a monthly basis consistent with the billing cycle in which the IESO-M invoices market participants to recover the cost of building electricity infrastructure in the province, as well as delivering Ontario's conservation programs. Revenues are based on the differences between the wholesale market price for electricity, known as Hourly Ontario Energy Price (HOEP) and regulated rates, payments for building or refurbishing infrastructure, and the cost of delivering conservation programs. The Act and associated Ontario regulations prescribes all other items that can be settled via the Global Adjustment.

Interest and investment income represent interest income and investment gains or losses on cash and cash equivalents. Such revenue is recognized as it is earned.

c) Financial instruments

The IESO-M records cash and cash equivalents at fair value. Transaction costs are charged to operations as incurred.

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

The IESO-M records accounts receivable amounts due to and from market participants, accounts payable and debt at amortized cost.

d) Foreign exchange

Transactions denominated in foreign currencies are converted into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Subsequently, monetary assets and liabilities on the statement of financial position denominated in foreign currency are converted to Canadian dollars at the rate of exchange as of the date of the financial statements with the foreign exchange gain or loss recognized in the statement of operations.

e) Use of estimates

The preparation of the financial statements in conformity with the basis of accounting described in Note 2(a) 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.

3. ACCOUNTS RECEIVABLE

As at December 31 (in thousands of Canadian dollars)	2021	2020
	\$	\$
Market accounts receivable	1,562,398	1,538,995
Deferred Global Adjustment receivable (Note 6)	27,780	333,358
Global Adjustment receivable	22,281	125,647
Net congestion rent receivable	435	3,264
Closing balance	1,612,894	2,001,264

4. SMART METERING ENTITY REBATE RECEIVABLE AND PAYABLE

In 2021, the IESO recognized \$13,671 thousand (2020 - \$2,459 thousand) in rebates due to IESO-M regarding the Smart Metering Entity ("SME"). The SME can accumulate up to a maximum operating reserve balance including certain Ontario Energy Board ("OEB") approved adjustments and timelines. The OEB will regularly review and order the SME to rebate to market participants any amount that exceeds the maximum operating reserve balance. As at December 31, 2021, the rebates to be received from the IESO were \$13,671 thousand (2020 - \$2,459 thousand). As at December 31, 2021, the rebates due to market participants were \$13,671 thousand (2020 - \$2,459 thousand).

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31 (in thousands of Canadian dollars)	2021	2020
	\$	\$
Market payables	1,492,832	1,448,767
Prepayments	39,950	52,812
Prepayments for transmission rights	3,560	7,536
Market interest payable to IESO	1,792	2,938
Prudential cash deposits and interest payable	104	229
Other	-	23
Closing balance	1,538,238	1,512,305

6. DEBT

a) Credit Facility with the Ontario Financing Authority (“OFA”)

The IESO on behalf of the IESO-M has an unsecured credit facility agreement with the OFA, which will make available to the IESO-M an amount up to \$1,100,000 thousand (2020 - \$1,100,000 thousand). Advances and monthly rollover amounts are payable at a variable interest rate equal to the Province of Ontario’s cost of funds plus 0.25% per annum. The credit facility has a June 30, 2023 expiration date. As at December 31, 2021, the credit facility payable to the OFA was \$nil (2020 – \$199,729 thousand).

For the year ended December 31, 2021, the interest expense on the credit facility was \$169 thousand (2020 – \$436 thousand).

b) Global Adjustment Debt

In response to the COVID-19 global pandemic, pursuant to the combined effect of Ontario Regulation 191/20 and section 19.1 of Ontario Regulation 429/04, the Ministry of Energy (“Ministry”) implemented temporary emergency measures which provided financial relief to both Class A and non-Regulated Price Plan Class B market participants and consumers in April, May and June 2020 for a total of \$333,358 thousand. This deferred Global Adjustment has been recognized in revenue and will be recovered from the market participants throughout 2021 pursuant to Ontario Regulation 429/04, as amended and effective December 18, 2020.

The temporary relief received is a debt due and owing, without interest, to the Ministry. The IESO-M is required to remit all deferred Global Adjustment amounts received to the Ministry. In the event the IESO-M does not recover all or any portion by August 1, 2023, such balance shall be extinguished and shall no longer be a debt due and owed to the Ministry. The expiration date of the debt is the earlier of August 1, 2023, or the date on which the debt is fully repaid. As at December 31, 2021, the debt payable to the Ministry was \$27,780 thousand (2020 - \$333,358 thousand).

For the year ended December 31, 2021, the interest expense on the Global Adjustment debt was \$nil (2020 – \$nil).

7. GLOBAL ADJUSTMENT

Global Adjustment activities are comprised of the following:

For the year ended December 31 (in thousands of Canadian dollars)	2021	2020
	\$	\$
Contracts' settlement	3,681,748	7,706,670
Ontario Power Generation prescribed assets	3,338,098	4,644,119
Local distribution companies' programs	1,272,537	1,342,846
Conservation	196,035	168,172
Ontario Electricity Finance Corporation non-utility generators	63,043	98,928
Total Global Adjustment	8,551,461	13,960,735

a) Non-Hydro Renewables Funding

The Ministry of Energy funded a portion of non-hydro renewable energy contract costs effective January 1, 2021, which reduced Global Adjustment for all consumers. For the year ended December 31, 2021, the reduction in Global Adjustment was \$3,116,145 thousand (2020 - \$nil).

8. GOVERNMENT DIRECTED PROGRAMS

Government Directed Programs activities are comprised of the following:

For the year ended December 31 (in thousands of Canadian dollars)	2021	2020
	\$	\$
Non-hydro renewables funding (Note 7a)	3,116,145	-
Ontario Electricity Rebate	2,390,910	4,458,831
Distributed Rate Protection	335,971	354,196
Rural or Remote Rate Protection	296,452	308,713
Ontario Electricity Support	168,815	186,719
Northern Industrial Electricity Rate program	105,404	106,545
First Nations On-Reserve Delivery Credit	25,139	28,061
COVID-19 Energy Assistance	23,008	1,800
Natural Gas Expansion	2,571	39,606
Regulated Price Plan programs	(4,404)	501,514
Total Government Directed Programs expense	6,460,011	5,985,985
Net interest (income) expense	(290)	(164)
Total Government Directed Programs revenue	6,459,721	5,985,821

9. ADMINISTERED MARKET SETTLEMENTS

Administered Market Settlements activities are comprised of the following:

For the year ended December 31 (in thousands of Canadian dollars)	2021	2020
	\$	\$
Energy charges	3,910,650	1,950,285
Transmission charges	1,909,181	1,685,020
Transmission rights auction and congestion rents	216,694	204,067
IESO administration fee	195,029	188,602
Congestion management settlement credits	141,254	79,984
Ancillary service	70,883	71,467
Smart metering fee	33,093	35,249
Demand response	32,959	43,029
Adjustment Account	28,244	(4,731)
Operating reserve	24,748	47,775
All other	124,856	50,169
Total Administered Market Settlements expense	6,687,591	4,350,916
Interest income on transmission rights accounts (Note 10)	(507)	(841)
Total Administered Market Settlements revenue	6,687,084	4,350,075

10. INTEREST INCOME

In its administration of the IESO-M, the IESO directs the investment of market funds in investments throughout the IESO-M settlement cycle. The IESO is entitled to receive the investment income and investment gains, net of investment losses, earned on funds passing through the market settlement accounts. The IESO is not entitled to the principal on IESO-M investments.

Interest income is comprised of the following:

For the year ended December 31 (in thousands of Canadian dollars)	2021	2020
	\$	\$
Interest income on market settlement accounts	1,812	2,955
Interest income on transmission rights accounts	507	841
Interest income on Natural Gas Expansion accounts	189	77
Interest income on Regulated Price Plan accounts	170	496
Interest income on Rural or Remote Rate Protection accounts	80	10
Total interest income	2,758	4,379

The IESO-M transferred investment income earned in the market settlement accounts to the IESO in the amount of \$1,792 thousand in 2021 (2020 – \$2,938 thousand).

11. FINANCIAL RISK MANAGEMENT

The IESO-M is exposed to financial risks in the normal course of its business operations, including market risks resulting from volatilities in debt and foreign currency exchange markets, as well as credit risk and liquidity risk. The nature of the financial risks and the IESO-M strategy for managing these risks has not changed significantly from the prior period. The market participants bear the full risk for any associated financial risks experienced.

a) Market Risk

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

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Currency Risk

The IESO-M conducts certain transactions in U.S. dollars, primarily related to vendors' payments, and maintains a U.S. dollar-denominated bank account. From time to time, the IESO-M may utilize forward purchase contracts to purchase U.S. dollars for delivery at a specified date in the future at a fixed exchange rate. In addition, the IESO-M utilizes U.S. dollar spot rate purchases in order to satisfy any current accounts. As at December 31, 2021, the IESO-M did not have any foreign denominated financial assets or liabilities or outstanding forward purchase contracts (2020 – \$nil).

ii) Interest Rate Risk

The IESO-M is exposed to movements or changes in interest rates primarily through its short-term variable rate credit facility and cash equivalents' securities. If interest rates increased or decreased by 25 basis points, the net impact to the debt or securities value would be insignificant.

b) Credit Risk

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The IESO-M is exposed directly to credit risk related to cash equivalents' securities and accounts receivable. The IESO-M manages credit risk through an approved management policy that limits investments to primarily investment-grade investments with counterparty-specific limits, and a collateral-prudential based framework for accounts receivable. As there are a significant number of market participants, there is no concentration of credit risk.

c) Liquidity Risk

Liquidity risk refers to the risk that the IESO-M will encounter financial difficulty in meeting obligations associated with its financial liabilities when due. The IESO-M manages liquidity risk by forecasting cash flows to identify cash flows and financing requirements. Cash flows from short-term investments, and maintaining appropriate credit facilities help to reduce liquidity risk. As market participants as a whole are required to ensure that all IESO-M financial liabilities are to be paid, liquidity risk is considered to be insignificant.

**Independent Electricity
System Operator**

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