Ontario

Annual Report

2010

OEFC

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Mandate

Ontario Electricity Financial Corporation (OEFC or the Corporation) is one of five entities established by the *Electricity Act, 1998* (the Act) as part of the restructuring of the former Ontario Hydro.

Under the Act, the former Ontario Hydro was restructured into Ontario Power Generation Inc. (OPG), Hydro One Inc. (Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and OEFC.

In accordance with the Act, OEFC has the following mandate:

- managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro;
- managing the former Ontario Hydro's non-utility generator (NUG) contracts in the current market environment;
- receiving all payments and administering other assets, liabilities, rights and obligations of the Corporation that were not transferred to another of the former Ontario Hydro successor corporations and disposing of any of these items as it deems appropriate or as directed by the Minister of Finance;
- providing financial assistance to the successor corporations of Ontario Hydro;
- entering into financial and other agreements relating to the supply of electricity in Ontario; and
- performing any additional objects specified by the Lieutenant Governor in Council.

OEFC retains the services of the Ontario Financing Authority (OFA) and the Ministry of Revenue to carry out its daily operations on a cost-recovery basis.

The OFA is the agency of the Province of Ontario (the Province) responsible for provincial borrowing and debt management.

Table of Contents

Message from the Chair and Vice-Chair

We are pleased to present OEFC's 2010 Annual Report, which describes the Corporation's operational highlights and financial results for the year ended March 31, 2010.

Revenue exceeded expense by $1.4 billion in 2009–10, reducing the Corporation's unfunded liability from $16.2 billion to $14.8 billion as at March 31, 2010.

The unfunded liability has declined for six consecutive years. It is $4.6 billion less than the initial unfunded liability on April 1, 1999, when the former Ontario Hydro was restructured. Total debt and liabilities were $29.9 billion, down from the $38.1 billion inherited by the Corporation from the restructuring. The residual stranded debt will likely be retired between 2015 and 2018.

Over the past year, the OFA completed OEFC's long-term public borrowing requirements of $1.9 billion, primarily to refinance maturing debt.

Cost savings of $7.6 million were achieved through the management of the power purchase agreements.

Looking ahead to 2010–11, the Corporation will continue to manage its debt and liabilities in a cost-effective manner and support the implementation of the government's electricity policies and initiatives.

Peter Wallace
Chair

Gadi Mayman
Vice-Chair and Chief Executive Officer

Management's Discussion and Analysis

- Financial Results
- Debt and Liabilities
- Risk Management
- Other Responsibilities
- 2010–11 Outlook

Management's Discussion and Analysis

2009–10 HIGHLIGHTS:

- Sixth consecutive annual decline in the unfunded liability
- Completed long-term public borrowing requirements of $1.9 billion
- Achieved cost-savings of $7.6 million by managing power purchase agreements

Financial Results

Revenue and Expense

Total revenue for 2009–10 was $4.6 billion, an increase of $654 million from 2008–09. Revenue included $907 million from the Debt Retirement Charge (DRC); $1,409 million in power supply contract recoveries; $746 million in interest income from the Province, OPG and the IESO; and $516 million in payments-in-lieu (PIL) of taxes.

Total expense was $3.2 billion, an increase of $325 million from 2008–09. Expense included interest payments on short- and long-term debt of $1,624 million, and power supply contract costs of $1,409 million.

Overall, revenue exceeded expense by $1.4 billion. In 2008–09, revenue exceeded expense by $1.0 billion.

Borrowing Program

In 2009–10, the OFA completed the Corporation's long-term public borrowing requirements of $1.9 billion, most of which was for long-term debt maturities.

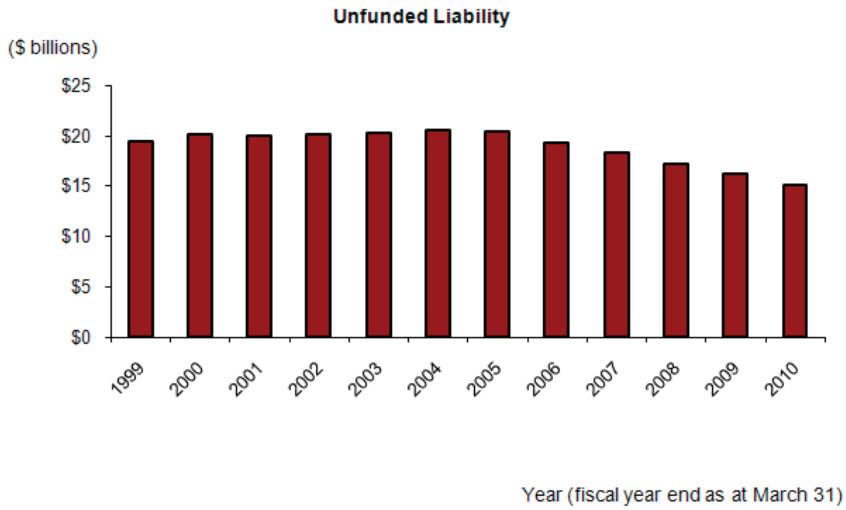
Long-term public borrowing was completed primarily in the Canadian domestic market.

Debt and Liabilities

The Corporation inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets. The initial unfunded liability of $19.4 billion was the stranded debt adjusted for $1.5 billion of additional assets.

As at March 31, 2010, total debt and liabilities were $29.9 billion, with total debt of $27.4 billion. These figures compare to total debt and liabilities of $30.5 billion, with total debt of $27.6 billion as at March 31, 2009.



The unfunded liability was $14.8 billion as at March 31, 2010, a decrease of $1.4 billion from March 31, 2009. This is the sixth consecutive annual decline in the unfunded liability, $4.6 billion below the $19.4 billion level as at April 1, 1999.

Debt Repayment Plan

As its legal continuation, OEFC services and retires the debt and other liabilities of the former Ontario Hydro from the following revenue and cash flow sources in the electricity sector:

- Outstanding notes receivable from the Province, OPG and IESO
- PIL of corporate income, capital and property taxes made by OPG, Hydro One and municipal electric utilities
- DRC paid by electricity consumers
- Electricity sector dedicated income - the Province's combined cumulative net income from OPG and Hydro One in excess of the Province's interest cost of its investment in these subsidiaries

Residual Stranded Debt

As at April 1, 1999, the present value of future PIL of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, known as residual stranded debt.

The Act provides for the DRC to be paid by consumers until the residual stranded debt is retired. The debt repayment plan estimates residual stranded debt will likely be retired between 2015 and 2018.

Risk Management

OEFC's risk management policies and procedures are designed to manage risk exposures associated with the Corporation's debt, derivatives and related capital market transactions.

Foreign exchange and net interest rate resetting exposures remained within policy limits in 2009–10.

- Foreign exchange exposure remained at 0.0 per cent of outstanding debt as at March 31, 2010. The foreign exchange exposure limit for OEFC is 5 per cent.
- Net interest rate resetting exposure was 16.4 per cent of outstanding debt as at March 31, 2010, within the limit of 35 per cent.

Other Responsibilities

Management of Power Supply Contracts

Efficiencies were achieved in managing the existing power purchase agreements with the NUGs in 2009–10. Purchase costs dropped by $7.6 million, compared to a $1.8 million drop in 2008–09, through auxiliary services revenue, curtailments, incremental power agreements and other transactions that shift the time of electricity generation under the contracts.

Previously, the Corporation purchased power from the NUGs under contractual terms, and sold the power at market prices lower than cost. However, as at January 1, 2005, the Corporation began to receive actual contract prices for power from ratepayers, eliminating losses on power purchase contracts. At that time, the Ministry of Finance estimated most of the liability would be eliminated over 12 years as existing contracts expire. The liability for power purchase contracts was valued at $1.9 billion as at March 31, 2010, compared to $2.2 billion as at March 31, 2009.

OEFC continued to monitor and implement a contingent support agreement between OEFC and OPG to provide for the continued reliability and availability of the Lambton and Nanticoke coal-fired stations. Any OEFC net costs under the contract are to be recovered from electricity consumers. The contingent support agreement is effective as of January 1, 2009, when OPG implemented a strategy to reduce greenhouse gas emissions from its coal plants, as directed by the Province.

Supporting New Electricity Supply Projects

Beginning in 2005, the Corporation began to provide financing on commercial terms to OPG for new electricity supply projects.

For instance, OEFC is providing financing under a loan agreement with OPG for the Niagara Tunnel Project, which will increase electricity generated by the Sir Adam Beck hydro complex in Niagara Falls.

This project and completed OPG supply projects financed by OEFC for the Portlands Energy Centre and Lac Seul help Ontario build a cleaner and greener electricity system which is consistent with the government's *Green Energy and Green Economy Act, 2009* and its direction to the Ontario Power Authority (OPA) to replace coal-fired generation and to further enhance the amount and diversity of renewable energy sources.

2010–11 Outlook

The OEFC will focus on the following:

Managing debt and other liabilities cost-effectively

The OFA will continue to manage the Corporation's debt and other liabilities in a cost-effective manner. In addition, the OFA will complete the Corporation's 2010–11 long-term public borrowing requirements of $0.7 billion, mostly to refinance debt maturities.

Managing financial risk within approved policy limits

The debt portfolio will be managed within exposure limits approved by OEFC's Board of Directors (the Board) throughout 2010–11.

Administering NUG and Lambton and Nanticoke contracts

The Corporation will continue to minimize costs to ratepayers through effective administration of the NUG contracts, and monitor and implement the Lambton and Nanticoke contingent support agreement.

Providing financial assistance as required to the Ontario Hydro successor corporations

The Corporation will facilitate the cash flow requirements of the Ontario Hydro successor corporations as required.

Supporting the implementation of the government's electricity industry policies and analyzing and monitoring the impact on the Corporation

The Corporation will continue to support the government's electricity initiatives as requested, and will monitor and analyze their impact on the Corporation.

Financial Statements

Responsibility for Financial Reporting

The accompanying financial statements of OEFC have been prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants and are Management's responsibility. The preparation of financial statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 2010.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. The Ontario Internal Audit Division of the Ministry of Finance independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to Management and the Audit Committee of the Board.

The Board is responsible for ensuring Management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee assists the Board in carrying out these responsibilities. The Audit Committee periodically meets with Management, the internal auditors and the external auditors to deal with issues raised by them, and to review the financial statements before recommending Board approval.

The financial statements have been audited by the Auditor General of Ontario (the Auditor). The Auditor's responsibility is to express an opinion on whether OEFC's financial statements fairly present OEFC's financial position in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and his opinion.

On behalf of Management:

Gadi Mayman
Vice-Chair and Chief Executive Officer

Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Electricity Financial Corporation
and to the Minister of Finance

I have audited the statement of financial position of the Ontario Electricity Financial Corporation as at March 31, 2010 and the statements of revenue, expense and unfunded liability and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 11, 2010

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

Ontario Electricity Financial Corporation

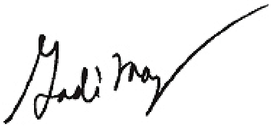
Statement of Financial Position

For the year ended March 31, 2010 ($ millions)

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	$ 8	$ 3
Accounts receivable	341	315
Interest receivable	24	22
Current portion of notes receivable (Note 6)	625	785
	998	1,125
Payments-in-lieu of tax receivable (Note 10)	383	301
Due from Province of Ontario (Note 5)	1,484	840
Notes and loans receivable (Note 6)	12,155	11,893
Deferred debt costs	67	118
	$ 15,087	$ 14,277
LIABILITIES		
Current Liabilities		
Accounts payable	$ 226	$ 182
Interest payable	446	481
Short-term notes payable (Note 7)	1,201	985
Current portion of long-term debt (Note 7)	1,253	2,319
	3,126	3,967
Long-term debt (Note 7)	24,913	24,286
Power purchase contracts (Note 9)	1,858	2,206
	29,897	30,459
Contingencies and guarantees (Note 11)		
UNFUNDED LIABILITY (Notes 1, 3, 10)	(14,810)	(16,182)
	$ 15,087	$ 14,277

Approved on behalf of the Board:

Peter Wallace
Chair



Gadi Mayman
Vice-Chair and Chief Executive Officer

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Revenue, Expense and Unfunded Liability

For the year ended March 31, 2010 ($ millions)

	2010	2009
REVENUE		
Debt retirement charge (Notes 1, 10)	$ 907	$ 970
Payments-in-lieu of tax (Notes 1, 10)	516	830
Interest	746	789
Power supply contract recoveries (Note 9)	1,409	953
Net reduction of power purchase contracts (Note 9)	348	373
Electricity sector dedicated income (Note 5, 10)	644	—
Other	7	8
Total Revenue	$ 4,577	$ 3,923
EXPENSE		
Interest - short-term debt	$ 7	$ 55
- long-term debt	1,617	1,678
Amortization of deferred charges	28	47
Power supply contract costs (Note 9)	1,409	953
Debt guarantee fee	138	141
Operating	6	6
Total Expense	3,205	2,880
Excess of revenue over expense	1,372	1,043
Unfunded liability, beginning of year	16,182	17,225
Unfunded Liability, end of year	$ 14,810	$ 16,182

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Cash Flow

For the year ended March 31, 2010 ($ millions)

	2010	2009
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess of revenue over expense	$ 1,372	$ 1,043
Adjustments for:		
Payments-in-lieu of tax (Note 1, 10)	(82)	(116)
Net reduction of power purchase contracts (Note 9)	(348)	(373)
Electricity sector dedicated income (Note 5, 10)	(644)	—
Amortization of deferred charges	28	47
Other Items	(61)	(87)
Cash provided from operations	$ 265	$ 514
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issues	$ 1,941	$ 3,475
Less long-term debt retired	2,319	3,883
Long-term debt (retired), net	(378)	(408)
Short-term debt issued (retired), net	216	(221)
Notes receivable (advance) repayment	(98)	115
Cash (required by) financing activities	(260)	(514)
Increase in cash and cash equivalents	5	—
Cash and cash equivalents, beginning of year	3	3
Cash and cash equivalents, end of year	$ 8	$ 3
Interest on debt paid during the year and included in excess of revenue over expense	$ 1,659	$ 1,771

See accompanying notes to financial statements.

Notes to Financial Statements

1) Electricity Sector Reform

Effective April 1, 1999, pursuant to the *Electricity Act, 1998* (The Act), Ontario Hydro was continued as a corporation without share capital under the name Ontario Electricity Financial Corporation (OEFC). It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

OEFC is a Crown agency whose objects include managing the former Ontario Hydro's Non-Utility Generator (NUG) contracts in the current market environment; providing financial assistance to the successor corporations of Ontario Hydro; entering into financial and other agreements relating to the supply of electricity in Ontario; and managing the debt and admi-nistering the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities.

These other successor entities include:

- Ontario Power Generation (OPG), an electricity generation company;
- Hydro One, a regulated electricity transmission and distribution business;
- Independent Electricity System Operator (IESO), the regulated centralized independent system coordinator responsible for directing system operations and operating the electricity market; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the respective business units, including assets, liabilities, employees, rights and obligations of the former Ontario Hydro were transferred to OPG and Hydro One (and their subsidiaries) and the IESO for $8.5 billion, $8.6 billion and $78.0 million respectively in exchange for debt payable to OEFC. On the same day, the Province of Ontario (the Province) exchanged equity of $5,126 million and $3,759 million in OPG and Hydro One respectively for debt payable to OEFC.

The opening stranded debt of $20.9 billion at April 1, 1999 was composed of $38.1 billion in liabilities assumed from the former Ontario Hydro less the value of assets transferred to OEFC at April 1, 1999, including $17.2 billion in notes receivable. After receipt of $1.5 billion in loans receivable and other assets, the opening unfunded liability stood at $19.4 billion. As at April 1, 1999, the present value of future payments-in-lieu (PIL) of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, known as residual stranded debt.

The OEFC debt, liabilities and associated financing costs will be repaid from interest on notes receivable from the Province and successor entities, and, as provided under the Act, from dedicated electricity revenues in the form of PIL of corporate income, capital and property taxes made by the successor entities and municipal electric utilities. OEFC also receives the Debt Retirement Charge (DRC) to be paid by electricity consumers at a rate of 0.7 cents/kWh until the residual stranded debt is retired. The Ontario Financing Authority (OFA), an agency of the Province responsible for borrowing and investing monies for the Province and other public bodies, provides day-to-day management services to OEFC.

On December 9, 2004, the *Electricity Restructuring Act, 2004* was passed, resulting in a combination of a fully regulated and competitive electricity sector with different generators receiving prices set through a variety of mechanisms. Electricity generated from OPG's nuclear and baseload hydro generation assets receive regulated prices, electricity from those generators with existing or new contracts receive prices as determined by their contracts, while other generation receives prices set in the electricity spot market. Consumers pay a blend of these costs including the pass-through of regulated prices for OPG's regulated plants, the full costs for existing and new contracts for generation and market prices for other generation facilities. The Act also created the Ontario Power Authority (OPA) to ensure an adequate long-term supply of electricity.

2) Summary of Significant Accounting Policies

Basis of Accounting
As OEFC is a government organization, these financial statements are prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Measurement Uncertainty
Uncertainty in the determination of 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 there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty in these financial statements exists in the valuation of the power purchase contracts and the estimated defeasance date for OEFC's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and will be updated annually to reflect new information as it becomes available.

Deferred Debt Costs
Deferred debt costs includes the unamortized amounts related to any foreign exchange gains or losses resulting from the translation of long-term debt issued in foreign currencies and discounts, premiums or commissions arising from the issuance of debt or the acquisition of debt prior to maturity. These costs are amortized to operations over the life of the underlying debt.

Revenue Recognition
Revenues are recognized in the period in which they are earned.

Foreign Currency Translation
Debt is composed of short-, medium- and long-term bonds, notes and debentures. Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at year-end rates of exchange and, in accordance with the recommendations of the PSAB of the Canadian Institute of Chartered Accountants, any exchange gains or losses are deferred and amortized over the remaining term to maturity.

Power Purchase Contracts
The liability for power purchase contracts was originally calculated by discounting estimated losses over the life of the contracts. Under the *Electricity Restructuring Act, 2004*, OEFC began receiving actual contract prices for power from electricity consumers, effective January 1, 2005, and will no longer incur losses on these power purchase contracts. At that time, the Ministry of Finance estimated that the bulk of the liability would be eliminated over 12 years as existing electricity contracts expire.

3) Going Concern

The OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying their outstanding notes receivable. It is also dependent on the government's long-term plan to defease the unfunded liability described in Note 10.

4) Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit and highly liquid investments recorded at cost, which approximates current market value.

5) Due from the Province

The Province has committed to dedicate the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC. Under these arrangements, the Province can recoup all costs associated with its investments in electricity subsidiaries on a cumulative basis before any income can be recognized by OEFC. For the year ended March 31, 2010, OPG and Hydro One earned an aggregate amount of $1,249 million (2009 – $435 million). After deducting the prior year's shortfall of $85 million and the Province's $520 million interest cost of its investment in these subsidiaries from OPG and Hydro One earnings, there remains an amount of electricity sector dedicated income of $644 million (2009 – Nil). The change in electricity sector dedicated income is largely due to earnings in OPG's segregated funds for nuclear liabilities, which amounted to $830 million for the year ended March 31, 2010 (2009 – loss of $48 million).

6) Notes and Loans Receivable

($ millions)	Maturity Date	Interest Rate	Interest Payable	March 31, 2010	March 31, 2009
The Province	2039-2041	5.85	Monthly	$ 8,885	$ 8,885
OPG	2010-2020	3.56 to 6.65	Semi-annually	3,723	3,625
IESO	2011	Variable	Quarterly	78	78
				12,686	12,588
Less: Current portion of notes receivable				625	785
				12,061	11,803
Add: Loans receivable from NUGs				94	90
				$ 12,155	**$ 11,893**

OEFC has agreed with OPG and the IESO not to sell notes owing from these successor entities without their prior approval.

OEFC has agreed to provide OPG financing for new generation project development in the form of 10-year notes on commercial terms and conditions. These agreements provide for up to $400 million for OPG's interest in the Portlands Energy Centre, up to $50 million for the Lac Seul project and up to $1.0 billion in loans for the Niagara tunnel project. OEFC is finalizing amendments to the Niagara tunnel loan agreement to increase the Niagara tunnel facility to $1.6 billion. Under these agreements, $540 million has been advanced for the Niagara Tunnel project, $390 million for the Portlands Energy Centre and $50 million for the Lac Seul project.

OEFC has agreed to provide to OPG a $970 million line of credit to finance existing maturities, expiring on December 31, 2010. Under this agreement, $530 million has been advanced.

Set out below is a summary by year of maturity of OPG's debt to OEFC:

Fiscal Year	Amount ($ millions)
2010-11	$ 625
2011-12	188
2012-13	400
2014-15	300
2016-17	320
2017-18	1,125
2018-19	260
2019-20	505
Total	**$3,723**

The note receivable from the IESO was extended to mature on May 1, 2011, bearing interest at a floating rate equal to the yield on the Province's Treasury Bills plus 25 basis points to be reset every 90 days. In April 2010, OEFC provided a revolving credit facility to the IESO for up to $60 million to April 30, 2013. The facility will be used for liquidity purposes and to temporarily fund corporate requirements.

Loans receivable from NUGs increased during the year by $4 million to $94 million (2009 – $90 million), primarily due to interest, which has been added to the principal balance.

7) Debt

Debt at March 31, 2010, is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

($ millions) Currency	Canadian Dollars	U.S. Dollars	Other Foreign	2010 Total	2009 Total
Maturing in:					
1 year	$ 2,401	—	$ 53	$ 2,454	$ 3,304
2 years	500	—	47	547	1,253
3 years	800	$1,742	118	2,660	547
4 years	3,514	—	329	3,843	1,895
5 years	2,133	553	—	2,686	3,636
1-5 years	9,348	2,295	547	12,190	10,635
6-10 years	6,684	74	853	7,611	9,019
11-15 years	3,273	—	—	3,273	3,757
16-20 years	2,191	—	—	2,191	2,191
21-25 years	850	—	—	850	850
26-50 years	1,252	—	—	1,252	1,138
Total	**$23,598**	**$2,369**	**$1,400**	**$27,367**	**$27,590**

The effective rate of interest on the debt portfolio was 5.91 per cent after considering the effect of derivative instruments used to manage interest rate risk (2009 – 6.14 per cent). The longest term to maturity is to June 2, 2039. Total foreign currency denominated debt at March 31, 2010 was $3.8 billion, 100 per cent of which was fully hedged to Canadian funds (2009 – $3.2 billion or 100 per cent). Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

Debt	March 31, 2010			March 31, 2009		
($ millions)	Held by the Province	Guaranteed by the Province	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	$ 1,201	—	$ 1,201	$ 985	—	$ 985
Current portion of long-term debt	1,253	—	1,253	2,319	—	2,319
Long-term debt	16,979	$7,934	24,913	16,352	$7,934	24,286
Total	**$19,433**	**$7,934**	**$27,367**	**$19,656**	**$7,934**	**$27,590**

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing OEFC's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of OEFC debt at March 31, 2010, was $31.4 billion (2009 – $32.2 billion). This is higher than the book value of $27.4 billion (2009 – $27.6 billion) because current interest rates are generally lower than the interest rates at which the debt was issued and because of exchange rate movements. The fair value of debt does not reflect the effect of related derivative contracts.

8) Risk Management and Derivative Financial Instruments

OEFC employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost-effective manner. A variety of strategies are used including the use of derivative financial instruments ("derivatives"). Derivatives are financial contracts, the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange or currency risk is the risk foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, derivative contracts are used to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency debt principal, net of foreign currency holding, to reach a maximum of 5 per cent of total debt. At March 31, 2010, the actual unhedged level was 0.0 per cent of total debt (2009 – 0.0 per cent).

Net interest rate resetting risk is the exposure to changes in interest rates. Exposure to rate changes is reduced by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt and fixed rate debt maturing within the next 12 months, net of liquid reserves, to reach a maximum of 35 per cent of total debt. At March 31, 2010, net interest rate resetting risk as a percentage of total debt was 16.4 per cent (2009 – 19.5 per cent).

Liquidity risk is the risk OEFC will not be able to meet its current short-term financial obligations. As explained in Note 3, OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying their outstanding notes receivable.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at March 31, 2010, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value

As at March 31, 2010 ($ millions)

Maturity in years Fiscal Year	2011	2012	2013	2014	2015	6-10 Years	Over 10 Years	Total	March 2009
Cross-currency swaps	$ 98	$ 90	$ 1,957	$ 634	$ 553	$ 1,618	—	$ 4,950	$ 4,782
Interest rate swaps	—	147	958	457	2,417	1,164	$653	5,796	6,703
Forward foreign exchange contracts	147	—	—	—	—	—	—	147	162
Total	**$ 245**	**$ 237**	**$ 2,915**	**$ 1,091**	**$ 2,970**	**$ 2,782**	**$653**	**$10,893**	**$11,647**

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which OEFC has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2010.

Credit Risk Exposure ($ millions)	**March 31, 2010**	**March 31, 2009**
Gross credit risk exposure	$ 333	$ 479
Less: Netting	(333)	(428)
Net credit risk exposure	**$ 0**	**$ 51**

OEFC manages its credit risk exposure from derivatives by, among other things, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, OEFC enters into contractual agreements ("master agreements") that provide for termination netting and, if applicable, payment netting with most of its counterparties. Gross credit risk exposure represents the loss OEFC would incur if every counterparty to which OEFC had credit risk exposure were to default at the same time, and the contracted netting provisions were not exercised or could not be enforced. Net credit risk exposure is the loss including the mitigating impact of these netting provisions.

9) Power Supply Contracts

Power supply contracts include both power purchase contracts and power supply support agreements. Power purchase contracts and related loan agreements were entered into by the former Ontario Hydro with NUGs located in Ontario. As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts. The contracts, expiring on various dates to 2048, provide for the purchase of power at prices in excess of future market price. Accordingly, a liability was recorded at $4,286 million on a discounted cash-flow (DCF) basis when the former Ontario Hydro was continued as OEFC on April 1, 1999.

Under legislated reforms to the electricity market, OEFC began receiving actual contract prices for power from ratepayers effective January 1, 2005, and no longer incurs losses on these contracts. At that time, the Ministry of Finance estimated the bulk of the liability to be eliminated over 12 years as existing electricity contracts expire. As a result, the Corporation is amortizing the liability to revenue over that period.

In addition, effective January 1, 2009, OEFC entered into a support contract with OPG whereby OPG agreed to maintain the reliability and availability of Lambton and Nanticoke coal-fired stations following implementation of a greenhouse gas emissions-reduction strategy. Under the contract, OEFC agreed to ensure OPG would recover the actual costs of operating the stations after implementing this strategy. Any costs to OEFC under this agreement, which expires December 31, 2014, are fully recovered from ratepayers.

During the year ended March 31, 2010, OEFC's costs under power supply contracts totalled $1,409 million, including purchases of power from NUGs of $954 million (2009 – $914 million) and OPG support contract costs of $455 million (2009 – $39 million). All of these costs were fully recovered from ratepayers.

Statement of Liability for Power Purchase Contracts ($ millions)

As at March 31, 2010

	2010	**2009**
Liability, beginning of year	$ 2,206	$ 2,579
Amortization	(348)	(373)
Liability, end of year	**$ 1,858**	**$ 2,206**

10) Unfunded Liability

Pursuant to the Act consistent with the principles of electricity restructuring, the government has a long-term plan to defease the unfunded liability from the electricity sector. The plan includes cash flows from the following sources as at April 1, 1999:

Notes receivable from the Province of $8.9 billion, OPG of $3.4 billion, Hydro One of $4.8 billion and IESO for $0.1 billion, for a total of $17.2 billion as a result of the transfer of assets to successor companies;

Payments-in-lieu of corporate income, capital and property taxes made by OPG, Hydro One and municipal electric utilities;

DRC paid by ratepayers based on the consumption of electricity; and

Electricity Sector Dedicated Income Consistent with the government's commitment to keep electricity income in the electricity sector, the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries will be allocated to retire OEFC's debt.

11) Contingencies and Guarantees

OEFC is involved in various legal actions arising out of the ordinary course and conduct of business, some of which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999. For the majority of these claims, OPG or Hydro One is required to indemnify OEFC for any liability arising from these claims. For claims on which OEFC is provided no indemnification, the outcome and ultimate disposition of these legal actions is not determinable at this time. Accordingly, no provision is reflected in the financial statements, and settlements, if any, will be reflected in the period in which settlement occurs.

Subject to a $10 million deductible, OEFC has agreed to indemnify Hydro One in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the company at April 1, 1999, and any failure of the transfer order to transfer such assets, rights or things and with respect to payment to or from or other dealing with any equity account of Ontario Hydro, including certain related litigation. The Province has guaranteed any liability arising from these indemnifications. A similar indemnity provided to OPG was terminated as of May 31, 2006.

OEFC is contingently liable under guarantees given to third parties that have provided long-term financing to certain independent power producers in connection with the power purchase agreements described in Note 9. These guarantees total approximately $36 million at March 31, 2010 (2009 – $46 million).

12) Related Party Transactions

In the normal course of operations, OEFC has transactions with the following related parties, all of which have been disclosed in the notes to the financial statements. Each of the following entities is included in the Province's financial statements:

a) Province of Ontario
b) Ontario Power Generation Inc.
c) Hydro One Inc.
d) Independent Electricity System Operator
e) Ontario Financing Authority

13) Comparative Figures

Certain of the prior year's comparative figures have been re-classified to conform to the financial statement presentation adopted for the 2009–10 fiscal year.

Corporate Governance

- Overview
- Board of Directors
- Risk Management Policies and Procedures

Corporate Governance

Overview

OEFC is an agent of the Crown and is classified as an operational enterprise agency.

Corporate governance at OEFC involves processes that permit the effective supervision and management of activities by senior management, the Board, its Audit Committee and the Minister of Finance. It includes identifying individuals and groups responsible for the Corporation's activities and specifying their roles.

Accountability and Responsibilities

The OEFC's accountability structure flows from its governing statute, the Act. The Minister of Finance (the Minister) is responsible for the administration of the Act in respect of OEFC. The Act and directives issued by Management Board of Cabinet (MBC) relating to Crown agencies form a framework under which OEFC is governed.

Each year, the Minister is required to submit the OEFC Annual Report to the Lieutenant Governor in Council and then table the Annual Report in the Legislature. In addition, the Minister reviews and approves OEFC's annual business plan and recommends it for approval to MBC every three years or as otherwise required by government directives. The Minister also maintains communications with OEFC through the Chair of the Board (the Chair) regarding government policies and expectations relevant to OEFC.

The Chair is accountable to the Minister of Finance for the performance of OEFC in fulfilling its mandate. The current Chair is also the Deputy Minister of Finance. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of OEFC. In addition, the Chair provides leadership and direction to the Board and the Chief Executive Officer (CEO) and ensures OEFC complies with government policies and directives.

The Board is appointed by the Lieutenant Governor in Council and is accountable to the Minister through the Chair for supervising the management of OEFC. The current Board is comprised of public servants employed by the Crown. The Board meets at least quarterly and receives regular reports from the CEO and staff of the OFA concerning the operations of OEFC and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

The Audit Committee of the Board approves an annual internal audit plan and liaises with the Corporation's internal auditors and the Auditor General of Ontario regarding financial reporting and controls. It also reviews financial policies and financial statements and recommends them to the Board.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. The CEO is accountable to the Chair for the day-to-day management of OEFC and for the performance of any other functions assigned by the Board. The CEO is responsible for managing the ongoing activities of OEFC. In addition, the CEO ensures OEFC's policies and procedures remain relevant and effective.

The Corporation does not have employees, although some OFA employees are designated as officers for executing agreements and other documents on the Corporation's behalf. The OFA carries out the Corporation's day-to-day operations under the supervision of the CEO and the Board. In addition, the Act provides that OEFC is entitled to receive certain payments, which are collected for the benefit of OEFC by the Tax Revenue Division of the Ministry of Revenue.

Financial Reporting

OEFC prepares annual financial statements in accordance with the recommendations of the PSAB of the Canadian Institute of Chartered Accountants. The financial statements are reviewed and recommended by the Audit Committee and approved by the Board. Unaudited financial statements are prepared quarterly and presented to the Audit Committee and the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly and in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. The findings are reviewed by the Audit Committee and the Board. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included as a schedule to the Public Accounts of the Province.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting and to safeguard OEFC's assets and manage its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, OEFC uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning
- written communication of policies and procedures governing corporate conduct and risk management
- segregation of duties
- maintenance and retention of detailed records
- responsible delegation of authority and personal accountability
- careful selection and training of personnel
- regularly updated accounting and financial risk policies.

As part of its annual business plan, OEFC conducts a risk assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on its risk assessment and input from OEFC Audit Committee and OEFC Management. The internal audit plan is presented for review and approval by OEFC Audit Committee. The Internal Audit Division reports to OEFC Audit Committee on the results of their audit work in OEFC.

Board of Directors

Peter Wallace	Chair and Deputy Minister of Finance Appointed September 2008
Gadi Mayman	Vice-Chair and Chief Executive Officer Appointed August 2003
Bruce L. Bennett*	Assistant Deputy Minister and Provincial Controller Ministry of Finance Appointed August 2006
Serge Imbrogno	Assistant Deputy Minister, Corporate and Electricity Finance Division OFA Appointed April 2008
Mahmood Nanji**	Assistant Deputy Minister, Automotive Strategy and Nuclear New Build Secretariat, Ministry of Energy Assistant Deputy Minister, Transit Policy Liaison Office, Ministry of Public Infrastructure Renewal Appointed August 2006
Nancy Naylor**	Assistant Deputy Minister, Postsecondary Education Division, Ministry of Training, Colleges and Universities Appointed August 2006
Bohodar Rubashewsky	Interim Chief Executive Officer, OLG seconded from Ministry of Energy and Infrastructure (Assistant Deputy Minister, Corporate Development) Appointed August 2006

* Chair, Audit Committee
** Member, Audit Committee

Risk Management Policies and Procedures

Overview

The Corporation's risk management policies and procedures provide for the management of risk exposures created by capital market activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to debt and derivatives portfolios and capital markets transactions.

These policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada and the Bank for International Settlements and by consulting with Canadian bank representatives on their risk management practices.

The Board and Management committees establish and approve risk management policies and monitor the performance of the OFA's capital market activities related to OEFC.

Market Risk Policy

Market risk is the risk of financial loss attributable to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- **Foreign Exchange Limit** — unhedged foreign currency exposure is limited to 5 per cent of outstanding debt. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc (including the Euro)
- **Net Interest Rate Resetting Limit** — the interest rate resetting exposure, net of liquid reserves, is limited to a maximum of 35 per cent of outstanding debt
- **Management Trigger Level** — to prevent a potentially large loss resulting from capital market transactions, the annual Financing, Debt and Electricity Management Plan establishes an aggregate loss trigger level, covering both the Province and OEFC.

Credit Risk Policy

Credit risk is the risk that a counterparty defaults on its financially contracted obligations. Credit risk arises when the OFA undertakes financial and derivative transactions on behalf of OEFC. The minimum credit rating of a new counterparty for swap transactions is AA- and R1-mid, A-1 or P-1 for money market investments. The resulting exposure to a financial counterparty is capped at mark-to-market limits depending on the counterparty's credit rating and capital base.

Policy on the Use of Derivatives and Financial Instruments

Use of derivatives and other financial instruments is restricted to those that the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from the borrowing and debt management programs in a sound and efficient manner. Risks arising from the use of derivatives are monitored and managed prudently.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events. The OFA manages operational risk relating to OEFC through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers OEFC's operations), which is regularly updated to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

Policy on Risk Management Reporting

At its regular quarterly meetings, the Board is kept informed of the Corporation's activities:

- The CEO of OEFC provides the Board with a progress report on the implementation of the Annual Financing, Debt and Electricity Management Plan, staffing and other administrative and operational matters. The CEO also reports on compliance with applicable government directives.
- The Director, OFA Risk Control Division, reports on program exposures and performance, as well as exceptions to policies.

In addition, OFA Management is informed of the Corporation's risk exposures and positions on a daily basis so it can direct appropriate actions on behalf of OEFC.

Additional Sources of Information

Internet Links

Ontario Electricity Financial Corporation	www.oefc.on.ca
Ontario Financing Authority	www.ofina.on.ca
Ministry of Finance	www.fin.gov.on.ca
Ministry of Energy and Infrastructure	www.mei.gov.on.ca
Ontario Power Generation Inc.	www.opg.com
Hydro One Inc.	www.hydroone.com
Independent Electricity System Operator	www.ieso.com
Ontario Electrical Safety Authority	www.esainspection.net
Ontario Power Authority	www.powerauthority.on.ca

Inquiries

For general information and additional copies of the Report, please contact OEFC at:

Telephone: (416) 325-8000

E-mail: investor@oefc.on.ca

OEFC

ONTARIO ELECTRICITY FINANCIAL CORPORATION

www.oefc.on.ca

1 Dundas Street West, Suite 1400
Toronto, Ontario
M7A 1Y7
Canada

Telephone: (416) 325-8000

investor@oefc.on.ca
www.oefc.on.ca

Ontario Electricity Financial Corporation

ISSN 1492-7551

This Annual Report is also available in French