Ontario

2018 Annual Report

OEFC

ONTARIO ELECTRICITY FINANCIAL CORPORATION

OEFC

ONTARIO ELECTRICITY FINANCIAL CORPORATION

www.oefc.on.ca

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. (now a subsidiary of Hydro One Ltd., or 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 contracts with non-utility generators (NUGs);
- 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 and demand management 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 Finance 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

Statement from the Chair and Chief Executive Officer

We are pleased to present OEFC's 2018 Annual Report, which describes the Corporation's operational highlights and financial results for the year ended March 31, 2018.

Revenue exceeded expense by $1.9 billion in 2017–18, reducing the Corporation's unfunded liability from $3.2 billion to $1.3 billion as at March 31, 2018.

The unfunded liability has declined for fourteen consecutive years. It is $18.1 billion less than the initial unfunded liability on April 1, 1999, when the former Ontario Hydro was restructured. Total debt and liabilities are $19.6 billion, down from the $38.1 billion inherited by the Corporation from the restructuring.

Cost savings of $5.4 million were achieved through the management of the power purchase agreements with non-utility generators (NUGs).

Looking ahead to 2018–19, 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.

Scott Thompson
Chair

Gadi Mayman
Vice-Chair and Chief Executive Officer

Management's Discussion and Analysis

- Financial Results
- Debt and Liabilities
- Risk Management
- Other Responsibilities
- 2018–19 Outlook

Management's Discussion and Analysis

2017–18 HIGHLIGHTS

- Annual excess of revenue over expense for OEFC of $1.9 billion, decreasing its unfunded liability by that amount
- Fourteenth consecutive annual decline in OEFC's unfunded liability
- Achieved cost-savings of $5.4 million by managing power purchase agreements

Financial Results

Revenue and Expense

Total revenue for 2017–18 was $3,339 million, a decrease of $43 million from 2016–17. Revenue included $593 million from the Debt Retirement Charge (DRC); $185 million in power supply contract recoveries; $642 million in interest income from the Province, OPG and the IESO; $815 million in Electricity Sector Dedicated Income (ESDI) from the Province in respect of OPG and Hydro One Limited net incomes; $494 million in payments-in-lieu (PIL) of taxes; and $531 million in financial benefit from the Province.

Total expense was $1,420 million, a decrease of $771 million from 2016–17 primarily due to reduced debt interest expense and power supply contract costs. Expenses included interest payments on debt of $1,112 million and power supply contract costs of $191 million.

Overall, revenue exceeded expense by $1,919 million. In 2016–17, revenue exceeded expense by $1,191 million.

In comparison to OEFC's budget, revenues came in at about $752 million above projections, primarily due to a financial benefit from the Province and higher than projected ESDI, related to the sale of Hydro One shares and the sale of real estate assets by OPG, respectively; and higher than projected PIL of taxes; partially offset by lower than projected power supply contract recoveries; while expenses were $111 million below budget, primarily due to lower power supply contract costs and lower debt interest expense.

Borrowing Program

In 2017–18, the OFA undertook the Corporation's long-term borrowing of $800 million in the Canadian dollar market for OEFC to fund loans extended to OPG. As in the previous year, the OEFC's cash reserves were adequate to fund long term debt maturities of $2.1 billion.

The Province paid down electricity sector debt and other payables of $1,943 million to OEFC in fiscal 2017–18 related to the book value of Hydro One share sales.

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 in 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, 2018, total debt and liabilities were $19.6 billion, with total debt of $19.1 billion. These figures compare to total debt and liabilities of $21.1 billion, with total debt of $20.4 billion, as at March 31, 2017.

The unfunded liability was $1.3 billion as at March 31, 2018, a decrease of $1.9 billion from March 31, 2017. This is the fourteenth consecutive annual decline in the unfunded liability and $18.1 billion below the $19.4 billion level as at April 1, 1999.

Debt Repayment Plan

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 and property taxes, and Gross Revenue Charges made by OPG, Hydro One and municipal electric utilities.
- Subsequent to the Hydro One IPO in November 2015, Hydro One no longer pays PIL of corporate income tax to OEFC. Under the *Electricity Act, 1998*, provincial corporate taxes payable by Hydro One Inc. are due and payable by the Province to OEFC.
- 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, which may be allocated to OEFC by the Province at its discretion.

The Debt Retirement Charge, Stranded Debt and Residual Stranded Debt

As originally enacted, the *Electricity Act, 1998*, allowed for the DRC to be paid by consumers until the retirement of the residual stranded debt.

The estimated retirement of residual stranded debt was subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depended on the financial performance of OPG, Hydro One, and municipal electric utilities, as well as other factors such as interest rates and electricity consumption.

The DRC cost was removed from residential electricity users' electricity bills as of January 1, 2016 and for all other consumers as of April 1, 2018. The residential rate class accounted for about a third of electricity load subject to the DRC.

Following the end of the DRC, OEFC will continue to receive other dedicated revenues, such as PILs, the amount equal to Hydro One Inc.'s provincial corporate income taxes, and the gross revenue charge paid to the OEFC, as well as, at the Province's discretion, any Electricity Sector Dedicated Income, to help service and pay down its unfunded liability.

Impact on OEFC of Hydro One Share Sales

In May 2017, the Province completed a public offering of Hydro One shares, selling 120 million common shares at $23.25 per share.

- As per section 50.3 of the *Electricity Act, 1998*, OEFC recognized in its Statement of Operations a financial benefit from the Province of $531 million in connection with the disposition of Hydro One common shares in May 2017, as well as the disposition of Hydro One Brampton Networks Inc. (Hydro One Brampton) common shares in February 2017.
- OEFC has received $1,943 million from the Province related to the book value of Hydro One common shares sold in May 2017, of which the Province applied $1,082 million to reduce its payable related to cumulative electricity dedicated earnings (due from the Province of Ontario) and $861 million to reduce the principal amount of notes payable to OEFC, as reflected in OEFC's Statement of Financial Position.

The Province's reduced ownership interest in Hydro One results in a reduced share of Hydro One net income, which is reflected in the Province's discretionary allocation of electricity sector dedicated income to OEFC.

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 2017–18.

- Foreign exchange exposure remained effectively at 0.1 per cent of outstanding debt as at March 31, 2018, well within the foreign exchange exposure limit for OEFC of 5.0 per cent.
- Net interest rate resetting exposure was minus 17.0 per cent of outstanding debt as at March 31, 2018, within the limit of 35.0 per cent.

Other Responsibilities

Management of Power Supply Contracts

Efficiencies were achieved in managing the existing power purchase agreements with the NUGs in 2017–18. Purchase costs were lower by $5.4 million, compared to being lower by $14.3 million in 2016–17, through OEFC curtailments. Savings are lower in 2017–18 compared to 2016–17 in part because there are now fewer active NUG PPA's to curtail, primarily due to early termination or suspension agreements.

In addition, OEFC continued to support the IESO's initiative to enter into enhanced dispatch agreements with gas-fired NUGs that had PPAs with OEFC. Since 2016–17, a total of five PPAs have either been suspended or terminated. This helped to reduce OEFC's power supply contract costs and recoveries in 2017–18.

For the period from May 1, 2002 to December 31, 2004, 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 decision was made to amortize the liability to revenue over the period when the liability arising from the prior estimated losses of the electricity contracts were estimated to be realised. The liability for power purchase agreements was valued at $0.1 billion as at March 31, 2018, compared to $0.2 billion as at March 31, 2017.

Supporting Electricity Supply Projects

The Corporation provides financing on commercial terms to OPG for general corporate purposes and electricity supply projects, including Darlington refurbishment.

Completed OPG supply projects financed by OEFC include the Niagara Tunnel Project, the Portlands Energy Centre and Lac Seul hydroelectric project.

Supporting the Implementation of the Government's Electricity Policies

OEFC also supported the Independent Electricity System Operator's (IESO) electricity demand management program and the Industrial Electricity Incentive (IEI) program for the period up to March 31, 2018. OEFC supported the IEI by providing payments to the IESO that served to offset the cost of the DRC portion of the electricity bill paid to OEFC on IEI-eligible incremental consumption by IEI participants. This program was designed to be cost-neutral for OEFC. Note that the contract was originally between the former Ontario Power Authority (OPA) and the OEFC, and, subsequent, to the January 1, 2015, merger of the IESO and the OPA into a new entity, also called the IESO, the contract is now between the IESO and OEFC. With the end of the Debt Retirement Charge beginning April 1, 2018, the OEFC's involvement in the IEI program is ending.

2018–19 Outlook

OEFC will focus on the following:

Managing debt and other liabilities cost-effectively

The OFA will continue to manage OEFC's debt and other liabilities in a cost-effective manner.

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) for 2018–19.

Administering NUG contracts

The Corporation will continue to minimize costs to ratepayers through effective administration of the NUG contracts.

Providing financing 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
- Auditor's Report
- Statement of Financial Position
- Statement of Operations and Change in Unfunded Liability
- Statement of Cash Flows
- Notes to Financial Statements

Financial Statements

Responsibility for Financial Reporting

The accompanying financial statements of OEFC have been prepared in accordance with Canadian public sector accounting standards 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 July 20, 2018.

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 Treasury Board Secretariat 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 external 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 Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

Gadi Mayman
Vice-Chair and Chief Executive Officer

Ken Kandeepan
Chief Financial and Risk Officer

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

Independent Auditor's Report

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

I have audited the accompanying financial statements of the Ontario Electricity Financial Corporation, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and cash flows for the year then ended, and 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.

Auditor's Responsibility

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 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Electricity Financial Corporation as at March 31, 2018, and the results of its operations, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
July 20, 2018

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

20 Dundas Street West
Suite 1530
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-327-9862
tty 416-327-6123

20, rue Dundas ouest
suite 1530
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-327-9862
ats 416-327-6123

www.auditor.on.ca

Ontario Electricity Financial Corporation

Statement of Financial Position

As at March 31, 2018 ($ millions)

	2018	2017
ASSETS		
Cash	$ 3	$ 3
Investments	4,068	2,556
Accounts receivable (Note 4)	163	290
Interest receivable	26	26
Due from Province of Ontario (Note 5)	3,426	3,577
Notes and loans receivable (Note 6)	10,607	11,375
	$ 18,293	$ 17,827
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	$ 24	$ 93
Interest payable	371	372
Debt (Note 8)	19,112	20,413
Power purchase contracts (Note 10)	104	178
	19,611	21,056
NET DEBT	(1,318)	(3,229)
NON-FINANCIAL ASSETS		
Deferred costs on hedging	35	27
UNFUNDED LIABILITY (Notes 1, 3, 12)	$ (1,283)	$ (3,202)
Contingencies (Note 13)		

Approved on behalf of the Board:

Scott Thompson
Chair

Gadi Mayman
Vice-Chair and Chief Executive Officer

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Operations and Change in Unfunded Liability

For the year ended March 31, 2018 ($ millions)

	2018	2017
REVENUE		
Debt retirement charge (Notes 1, 12)	$ 593	$ 621
Payments-in-lieu of tax and provincial corporate taxes (Notes 1, 12, 15)	494	364
Interest (Note 6)	642	703
Power supply contract recoveries (Note 10)	185	838
Net reduction of power purchase contracts (Note 10)	74	129
Electricity sector dedicated income (Notes 5, 12)	815	302
Financial benefit from the Province related to the disposition of Hydro One and Hydro One Brampton Shares (Notes 5, 12)	531	411
Other	5	14
	$ 3,339	$ 3,382
EXPENSE		
Interest on debt	$ 1,112	$ 1,216
Power supply contract costs (Note 10)	191	838
Debt guarantee fee	102	122
Operating	7	7
Industrial electricity incentive program costs (Note 11)	8	8
	1,420	2,191
Excess of revenue over expense	1,919	1,263
Unfunded liability, beginning of year	(3,202)	(4,393)
Unfunded liability, end of year	$ (1,283)	$ (3,202)

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Cash Flows

For the year ended March 31, 2018 ($ millions)

	2018	2017
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess of revenue over expense	$ 1,919	$ 1,191
Adjustments for:		
Decrease in accounts receivable (Note 4)	127	176
Decrease in interest receivable	–	5
Decrease in due from province of Ontario (Note 5)	151	704
Decrease in accounts payable and accrued liabilities (Note 7)	(69)	(11)
Decrease in interest payable	(1)	(21)
Net increase in debt from revaluation	24	22
Net reduction of power purchase contracts (Note 10)	(74)	(129)
(Increase) decrease in deferred costs on hedging	(8)	2
Other items	5	7
Cash provided from operations	$ 2,074	$ 1,946
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchase of) proceeds from investments	(1,512)	857
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issued	$ 800	$ –
Long-term debt retired	(2,119)	(2,978)
Short-term debt issued (retired), net	1	(976)
Note receivable repayment, net	756	1,142
Cash required by financing activities	(562)	(2,812)
Decrease in cash	–	(9)
Cash, beginning of year	3	12
Cash, end of year	$ 3	$ 3

	2018	2017
Interest on debt paid during the period and included in excess of revenue over expense	$ 1,113	$ 1,237

See accompanying notes to financial statements.

Notes to Financial Statements

1) Nature of Operations

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 or Corporation). The Corporation is one of five entities established by the Act as part of the restructuring of the former Ontario Hydro. 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 mandate includes:

- managing the debt and administering the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities and managing the former Ontario Hydro's non-utility generator (NUG) contracts;
- providing financial assistance to the successor corporations of Ontario Hydro; and
- entering into financial and other agreements relating to the supply and demand management of electricity in Ontario.

These other successor entities are:

- Ontario Power Generation (OPG), an electricity generation company;
- Hydro One, a regulated electricity transmission and distribution company;
- Independent Electricity System Operator (IESO), the regulated, independent system operator responsible for directing system operations, operating the electricity market, planning for and securing resources to meet medium and long-term energy needs, and coordinating conservation efforts; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the Ministry of Finance determined that the estimated value of the assets being transferred to the new entities was $17.2 billion, which was exceeded by the former Ontario Hydro's total debt and other liabilities of $38.1 billion. OPG, Hydro One (and their subsidiaries) and the IESO were transferred assets valued at $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. The resulting shortfall of $20.9 billion was determined by the Ministry of Finance to be "stranded debt." After adjusting for $1.5 billion in loans and other assets retained by OEFC, $19.4 billion was the unfunded liability reflected on the OEFC opening balance sheet.

To allow OEFC to service and retire $38.1 billion in total debt including the $20.9 billion in stranded debt, the Province established a long-term plan where debt service and repayment would be through dedicated revenues from electricity-sector companies. This would be broken down for the electricity sector as follows:

- Notes receivable from the Province, OPG, Hydro One and IESO;
- Payments in lieu of taxes (PILs), which are equivalent to the corporate income, property and capital taxes paid by private corporations;

- Debt retirement charge (DRC) paid by electricity consumers; and
- The cumulative combined profits of OPG and Hydro One (proportionate to the Province's ownership share) in excess of the government's annual interest cost of its investments in the two companies.

As of April 1, 1999, the present value of the future PILs and the cumulative combined profits of OPG and Hydro One in excess of the government's $520 million annual interest cost of its investments in the two companies to be dedicated to OEFC was estimated at $13.1 billion. As a result, subtracting the $13.1 billion from the stranded debt of $20.9 billion resulted in an initial estimate of $7.8 billion, for the residual stranded debt.

The Act provided for the DRC to be paid by electricity consumers until the residual stranded debt was retired. The DRC from residential users' electricity bills was removed as of January 1, 2016 and the DRC for all other users ended as of April 1, 2018. The *Electricity Act, 1998* was amended in 2015 and all reference to the "stranded debt" and "residual stranded debt" were removed including the removal of the requirement to determine the residual stranded debt from time-to-time.

2) Summary of Significant Accounting Policies

(a) Basis of Accounting

As OEFC is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

(b) Net Debt Presentation

A statement of changes in net debt is not presented since this information is readily apparent. A comparison between budget and actual has been excluded due to the unique nature of OEFC's revenues and expenses over which the agency has minimal control. OEFC is a passive recipient of revenues that it receives on the basis of either legislation (e.g., DRC, GRC, PILs, recovery of NUG contractual costs) or allocated by the Province at its discretion (ESDI).

(c) 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, payments-in-lieu of tax revenue, payments-in-lieu of tax receivable and tax refundable, and allowance for doubtful accounts. Estimates are based on the best information available at the time of preparation of the financial statements.

(d) Investments

Investments primarily consist of term deposits held with the Province recorded at cost and mature within one year.

(e) Revenue Recognition

The main sources of revenue are:

- **Debt retirement charge (DRC)** from ratepayers is recognized in the period earned based on the consumption of electricity.
- **Payments-in-lieu of taxes (PILs) and provincial corporate taxes** are recognized in the period that they are earned from OPG, Hydro One and municipal electric utilities. Also included under PILs are Gross Revenue Charge amounts and amounts allocated by the Province to OEFC equal to provincial corporate income taxes payable by Hydro One Inc. (post – IPO).
- **Interest income** is recognized in the period it is earned on notes receivable from the Province, OPG, IESO, and NUGs.
- **Power supply contract recoveries** are recognized as recovered at the same amount as the costs incurred on the Power supply contracts.
- **Electricity sector dedicated income** is allocated at the discretion of the Province of Ontario, using the cumulative combined net income of OPG and Hydro One Limited (related to the Province's ownership share) in excess of the Province's interest costs of its investment.
- **Provincial allocation related to the sale of Hydro One and Hydro One Brampton** is recognized in accordance with section 50.3 of the *Electricity Act, 1998* where OEFC receives a benefit as a result of the sales of Hydro One shares and Hydro One Brampton shares.

(f) Financial Instruments
The corporation's financial assets and liabilities are accounted for as follows:

- Cash and investments are subject to an insignificant risk of change in value so carrying value approximates fair value.

- Accounts Receivable, Due from Province and Notes and Loans Receivable are recorded at cost. Valuation allowances are made to reflect loan receivable at the lower of amortized cost and net realizable value, when collectability and risk of loss exists. Change in valuation is recognized in the statement of operations and unfunded liability.

- 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 Canadian public sector accounting standards, any exchange gains or losses are deferred and amortized over the remaining term to maturity.

- Discounts, premiums and commissions arising from the issuance of debt or the acquisition of debt prior to maturity are deferred and amortized to operations over the life of the underlying debt. Unamortized debt issue costs are included in total debt.

  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. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options. Derivatives are recognized at cost on the date on which derivatives are entered and are not subsequently re-measured at fair value at each reporting date.

(g) Debt guarantee fee

A fee equal to 0.5 per cent is payable to the Province annually based on the principal amount of notes, debentures and other indebtedness of the Corporation owed to the Province or guaranteed by the Province excluding adjustments to debt related to unrealized foreign exchange gains and debt issue costs.

(h) Deferred Costs on Hedging

Fees and other costs from debt related derivatives and gains and losses on sale of bonds used to hedge interest rates are deferred and amortized to operations over the life of the underlying debt. Unamortized amounts are classified under non-financial assets.

(i) Accounts payable and accrued Liabilities

Accounts payable relate to normal business transactions with third-party suppliers and are subject to standard commercial terms.

(j) Power Purchase Contracts

The liability for power purchase contracts was originally calculated by a net present value discounting of the 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 no longer incurs losses on these power purchase contracts. At that time, the decision was made to amortize the liability to revenue over the period when most existing electricity contracts expire with the liability fully eliminated in fiscal 2021–22.

3) Going Concern

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 its outstanding notes receivable. It is also dependent on the government's long-term plan to defease the unfunded liability as described in Note 12.

4) Accounts Receivable

As at March 31 ($ millions)	**2018**	**2017**
Debt retirement charge	$ 75	$ 91
Payments-in-lieu of tax	65	109
Power supply contract recoveries	18	85
Other receivables	5	5
Total	**$ 163**	**$ 290**

5) Due from the Province

As at March 31 ($ millions)	2018	2017
Electricity sector dedicated income	$ 2,871	$ 3,138
Financial benefit related to disposition of Hydro One shares	531	411
Amount equal to Hydro One Inc. provincial income tax	24	28
Total	**$ 3,426**	**$ 3,577**

In 1999, the Province put in place a policy commitment to allocate annually the 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 recoups all financing costs associated with its investments in electricity subsidiaries on a cumulative basis before any of the combined net income is allocated to and recognized by OEFC.

For the year ended March 31, 2018, for the purposes of Electricity Sector Dedicated Income, the Province's combined net income of OPG and Hydro One Limited was $1,272 million (2017 – $816 million, including Brampton Distribution Holdco Inc.). After deducting the Province's $457 million interest cost of its investment in these subsidiaries (2017 – $514 million), the Province at its discretion allocated to OEFC electricity sector dedicated income of $815 million (2017 – $302 million). During fiscal 2017–18, the Province paid $1,082 million to OEFC (2017 – $1,270 million) which reduced the balance due.

Section 50.3 of the *Electricity Act, 1998* governs the payments to be made to the Corporation in respect of the disposition of any securities of Hydro One and Hydro One Brampton. For fiscal 2017–18, OEFC recognized $531 million from the Province under section 50.3 of the Act in connection with the disposition of Hydro One common shares in May 2017 and Hydro One Brampton common shares in February 2017 (2017 – $411 million). During fiscal 2017–18, the Province settled $411 million of the amount due through a remission of debt that OEFC held with the Province (2017 – $172 million).

In addition, section 91.2 of the Electricity Act requires the Province to pay to the Corporation an amount equal to the amount of tax payable under the *Taxation Act, 2007* by Hydro One Inc. (or subsidiaries). For fiscal 2017–18, OEFC has recognized $23.7 million under section 91.2 of the Act (2017 – $24.8 million).

6) Notes and Loans Receivable

($ millions)					
	Maturity Date	**Interest Rate**	**Interest Payable**	**March 31, 2018**	**March 31, 2017**
The Province	2039–2041	5.85	Monthly	$ 6,902	$ 7,763
OPG	2018–2048	2.96 to 6.33	Semi-Annually	3,520	3,445
IESO	2020	Variable/1.77	Monthly/ Semi-Annually	120	90
				10,542	11,298
Add: Loans receivable from NUGs				71	77
Allowance for doubtful accounts				(6)	–
Net loans receivable from NUGs				65	77
Total				**$ 10,607**	**$ 11,375**

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

OEFC's interest income for 2018 of $642 million (2017 – $703 million) included interest from notes receivable of $614 million (2017 – $686 million) and $28 million (2017 – $17 million) from other sources including temporary investments.

The Province

As previously noted above, at the time of restructuring the former Ontario Hydro, the Province received equity of $8.9 billion in OPG and Hydro One in exchange for assuming debt payable to OEFC. During fiscal 2017–18, the Province paid $861 million to OEFC (2017 – $1,122 million) reducing the principal notes outstanding.

OPG

OEFC agreed to provide OPG financing in the form of 10-year and 30-year notes on commercial terms and conditions.

The OEFC agreed to provide up to $800 million for general corporate purposes, including the Darlington refurbishment project, expiring on December 31, 2016 with $100 million advanced under this facility and a $700 million credit facility for the period January 1, 2017 to December 31, 2017. In September 2017, the agreement was amended to increase the credit facility to $2,350 million and extend the expiry date to December 31, 2018. As at March 31, 2018, $1,400 million has been advanced under this credit facility.

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

Fiscal Year	Amount
2018–19	260
2019–20	505
2020–21	420
2021–22	185
2022–23	130
2023–24	20
2026–27	50
2040–41	150
2041–42	350
2046–47	250
2047–48	1,200
Total	**$ 3,520**

IESO

In April 2017, OEFC refinanced a note receivable with the IESO, originally maturing on April 30, 2017 for an additional term to June 30, 2020. The refinancing increased the principal outstanding from $90 million to $120 million.

In April 2017, OEFC also extended the expiry date of its revolving credit facility to the IESO to June 30, 2020, and increased the credit facility from $95 million to $160 million. The credit facility bears interest at a floating rate equal to the Province's cost of borrowing for a 30 day term plus 50 basis points. The facility will be used for liquidity purposes and to temporarily fund working capital requirements. At March 31, 2018, IESO had not drawn any funds from this credit facility.

NUGs

Loans receivable from NUGs at March 31, 2018 totalled $65 million, net of an allowance for doubtful accounts of $6 million recognized during the year (2017 – $77 million).

7) Accounts Payable and Accrued Liabilities

As at March 31 ($ millions)	2018	2017
Power supply contract costs	$ 18	$ 83
Payments-in-lieu of tax refundable	3	6
Other liabilities	3	4
Total	**$ 24**	**$ 93**

8) Debt

Debt at March 31, 2018, is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

Currency ($ millions)	Canadian Dollars	U.S. Dollars	Other Foreign	2018 Total	2017 Total
Maturing in:					
1 year	$ 1,137	$ 74	$ 165	$ 1,376	$ 2,773
2 years	1,384	–	–	1,384	712
3 years	1,361	–	–	1,361	1,384
4 years	1,804	–	–	1,804	1,361
5 years	1,396	–	–	1,396	1,805
1–5 years	7,082	74	165	7,321	8,035
6–10 years	7,559	–	–	7,559	8,844
11–15 years	929	–	–	929	1,041
16–20 years	1,260	–	–	1,260	846
21–25 years	382	–	–	382	782
26–50 years	1,732	–	–	1,732	875
	$ 18,944	**$ 74**	**$ 165**	**$ 19,183**	**$ 20,423**
Debt issue costs				**(71)**	**(10)**
Total				**$ 19,112**	**$ 20,413**

The effective rate of interest on the debt portfolio was 5.50 per cent after considering the effect of derivative instruments used to manage interest rate risk (2017 – 5.39 per cent). The longest term to maturity is to June 2, 2049. Total foreign currency denominated debt at March 31, 2018 was $0.2 billion, 96 per cent of which was hedged to Canadian funds (2017 – $0.7 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:

	March 31, 2018			March 31, 2017		
($ millions)	**Held by the Province**	**Guaranteed by the Province**	**Total**	**Held by the Province**	**Guaranteed by the Province**	**Total**
Short-term debt	$ 655	–	$ 655	$ 654	–	$ 654
Current portion of long-term debt	721	–	721	2,119	–	2,119
Long-term debt	11,426	6,310	17,736	11,330	6,310	17,640
Total	**$ 12,802**	**$ 6,310**	**$ 19,112**	**$ 14,103**	**$ 6,310**	**$ 20,413**

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, 2018, was $22.2 billion (2017 – $24.5 billion). This is higher than the book value of $19.1 billion (2017 – $20.4 billion) because current interest rates are generally lower than the interest rates at which the debt was issued. The fair value of debt does not reflect the effect of related derivative contracts.

9) Risk Management and Derivative Financial Instruments

OEFC 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/currency risk

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 5.0 per cent of total debt. At March 31, 2018, the actual unhedged level was 0.1 per cent of total debt (2017 – 0.0 per cent).

Net Interest Rate Resetting Risk

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 35.0 per cent of total debt.

At March 31, 2018, net interest rate resetting risk as a percentage of total debt was minus 17.0 per cent (2017 – minus 3.1 per cent). To minimize interest rate risk, loans to OPG continue to be funded by borrowings on similar terms to maturity, regardless of OEFC's liquid reserve position. The net interest rate resetting risk is negative due to cash and investment balances exceeding the amount of debt that is exposed to changes in interest rates.

Liquidity Risk

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 its outstanding notes receivable.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at March 31, 2018, 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, 2018 ($ millions)

Maturity in years Fiscal year	2019	2020	2021	2022	2023	6–10 Years	Over 10 Years	Total	March 2017
Cross-currency swaps	$ 203	$ –	$ –	$ –	$ –	$ –	$ –	$ 203	$ 873
Interest rate swaps	705	–	–	100	–	600	53	1,458	2,091
Forward foreign exchange contracts	203	–	–	–	–	–	–	203	190
Total	**$ 1,111**	**$ –**	**$ –**	**$ 100**	**$ –**	**$ 600**	**$ 53**	**$ 1,864**	**$ 3,154**

Credit Risk

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, 2018.

Credit Risk Exposure ($ millions)	March 31, 2018	March 31, 2017
Gross credit risk exposure	$ 22	$ 151
Less: Netting	(22)	(149)
Net credit risk exposure	**$ 0**	**$ 2**

OEFC manages its credit risk exposure from derivatives by, among other ways, 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.

10) Power Supply Contracts

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 going forward. At that time, the decision was made to amortize the liability to revenue over the period when most electricity contracts expire with the liability fully eliminated in fiscal 2021-22. The table below presents the unamortized liability.

Statement of Liability for Power Purchase Contracts
As at March 31, 2018 ($ millions)

	2018	2017
Liability, beginning of year	$ 178	$ 307
Amortization	(74)	(129)
Liability, end of year	**$ 104**	**$ 178**

During the year ended March 31, 2018, OEFC's costs under power supply contracts totalled $191 million (2017 - $838 million). Power supply contract costs exceeded power supply contract recoveries by $6 million due to the recognition of an allowance for doubtful accounts related to NUG loan receivables. Power supply contract costs decreased compared to the prior year as there were fewer contracts remaining or in operation and the prior year included about $260 million in retroactive amounts paid to certain NUGs following an Ontario Court decision. All amounts are recoverable from the Global Adjustment via the IESO settlements process.

11) Industrial Electricity Incentive Program Costs

Consistent with its objects, OEFC supported the IESO's electricity demand management program, the Industrial Electricity Incentive (IEI) program. The IEI program assists with the management of electricity demand by encouraging increased industrial production through electricity-based price adjustments. Offered in three streams, qualified participants can receive reduced electricity rates for eligible incremental consumption over a specified term.

On March 31, 2014, OEFC entered into a legal agreement, and as amended on May 13, 2015, with the former OPA to support the IEI program. Subsequent to the January 1, 2015 merger of the IESO and the OPA into a new entity, also called the IESO, the contract is now between the IESO and the OEFC. OEFC is providing payments to the IESO to offset the cost of the DRC portion of the electricity bill paid to OEFC on IEI-eligible incremental consumption by IEI participants. The agreement is currently set to be effective until December 31, 2024, with contracts subject to various termination clauses.

The DRC for all commercial, industrial and all other electricity consumers was removed as of April 1, 2018. OEFC no longer provides offsetting payments to the IESO on IEI-eligible incremental electricity consumed beginning April 1, 2018.

12) Unfunded Liability

Pursuant to the Act and consistent with the principles of electricity restructuring, there is a long-term plan to defease the unfunded liability from funds from the electricity sector.

Prior to the Hydro One IPO (see note 15), these funds included Notes Receivable, PILs, Gross Revenue Charges (GRC), DRC and ESDI.

Following the Hydro One IPO, these funds include Notes Receivable, PILs, GRC, Provincial Corporate Income Taxes allocated by the Province to OEFC from taxes payable by Hydro One Inc., DRC, ESDI (at the discretion of the Province) and a financial benefit from the proceeds of the IPO and subsequent share sales, including the sale of Hydro One Brampton shares, in accordance with section 50.3 of the *Electricity Act, 1998*.

13) Contingencies

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

14) Related Party Transactions

In the normal course of operations, OEFC has transactions with the following related parties:

a) Province of Ontario
b) Ontario Power Generation Inc.
c) Hydro One Inc. (for the period up to October 2015) and Hydro One Ltd. (post IPO)
d) Independent Electricity System Operator

The Corporation has entered into service level agreements with the following entities:

Ontario Financing Authority

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 a cost-recovery basis of $3.8 million (2017 – $3.8 million).

Ministry of Finance (MOF)

MOF provides revenue collection and reporting services to OEFC on a cost-recovery basis of $1.7 million (2017 – $1.7 million).

15) Provincial Sales of Hydro One Shares

On November 5, 2015, the Province sold about 16 per cent of the Province's outstanding Hydro One common shares at a price of $20.50 per share, through an IPO and through related share sales to electricity sector union trusts. On November 4, 2015, Hydro One paid a departure tax of $2.6 billion to OEFC as a consequence of leaving the PILs regime. Hydro One also paid a one-time additional PIL of tax payment of $191 million associated with the transaction.

On April 5, 2016, the Province initiated a secondary offering of Hydro One shares, which upon completion, reduced the Province's holdings of Hydro One common shares to approximately 70 per cent. On May 8, 2017, the Province initiated a secondary offering of Hydro One shares selling 120 million common shares at $23.25 per share, which upon completion, reduced the Province's holdings of Hydro One common shares to approximately 49.9 per cent.

On December 29, 2017, the Province completed a sale of about 2.4 per cent of outstanding Hydro One common shares at $18 per share to OFN Power Holdings LP, a limited partnership wholly-owned by Ontario First Nations Sovereign Wealth LP, which is in turn owned by 129 First Nations in Ontario. Upon completion of the sale, the Province's holdings of Hydro One common shares totalled approximately 47.4 per cent.

As a result of the Hydro One IPO, Hydro One and all its subsidiaries are subject to corporate income taxes (CIT). Under the *Electricity Act, 1998* the Minister of Finance must pay the OEFC an amount equal to provincial tax payable under the Taxation Act, 2007 by Hydro One Inc., to continue to help service and pay down the electricity sector stranded debt.

Proceeds related to the book value of the shares sold and the special dividend payment of $800 million paid by Hydro One to the Province are being used to pay down the Province's electricity sector debt and other payables. As noted in Notes 5 and 6, OEFC received $1,943 million (2017 – $2,392 million) from the Province during fiscal 2017–18 related to the book value of Hydro One common shares sold in May 2017, of which the Province applied $1,082 million (2017 – $1,270 million) to reduce its payable related to cumulative electricity dedicated earnings (Due from the Province of Ontario) and $861 million (2017 – $1,122 million) to reduce the principal amount of notes payable to OEFC that the Province had assumed on acquiring the shares of Hydro One.

In accordance with section 50.3 of the *Electricity Act, 1998*, in the year ended March 31, 2018 OEFC recognized a financial benefit from the Province of $531 million (2017 – $411 million) in connection with the disposition of Hydro One common shares in May 2017 and Hydro One Brampton common shares in February 2017. As noted in Note 5, during fiscal 2017–18, the Province settled $411 million related to the 2017 benefit through a remission of debt that OEFC held with the Province (2017 – $172 million related to the 2016 benefit).

Corporate Governance

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

Corporate Governance

Overview

OEFC is an agent of the Crown and is classified by Management Board of Cabinet as a board-governed provincial agency.

Corporate governance at OEFC involves processes that permit the effective supervision and management of OEFC's 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

OEFC's accountability structure flows from its governing statute, the Act. The Act together with policies issued by Management Board of Cabinet and the Minister of Finance form a framework under which OEFC is governed.

Each year, OEFC's Annual Report is reviewed and approved by the Minister of Finance and following the Minister's approval the Annual Report is tabled in the Legislature. In addition, the Minister of Finance reviews and approves OEFC's annual business plan. The Minister also maintains communications with OEFC, through its Chair, regarding government policies and issues relevant to OEFC.

The Chair is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance, and is accountable to the Minister of Finance for the performance of OEFC in fulfilling its mandate. The Chair is responsible for providing advice and information to the Minister of Finance with regard to the operation and affairs of OEFC. In addition, the Chair provides leadership to OEFC.

The Board is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance and is accountable to the Minister through the Chair. The Board performs a supervisory role, overseeing the management of the business and affairs of OEFC to ensure OEFC's mandate, as determined by the Province, is fulfilled. The Board is largely comprised of public servants employed by the Crown. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff 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 OEFC's internal auditors and the Auditor General of Ontario regarding financial reporting and internal controls. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit Committee is the review of the Corporation's major risks and mitigation strategies.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. The CEO works under the direction of the Chair and the Board to implement policies and operational decisions, and reports the agency's performance to the Board through the Chair. The CEO is responsible for managing the day-to-day operations and ongoing activities of OEFC in accordance with government policies.

The Corporation does not have employees, although some OFA employees are designated as officers for executing agreements and other instruments on the Corporation's behalf. The OFA carries out the Corporation's day-to-day operations under the supervision of the Board and pursuant to a Services Agreement between the OFA and OEFC. In addition, the Ministry of Finance collects certain payments on behalf of OEFC.

Financial Reporting

OEFC prepares annual financial statements in accordance with Canadian public sector accounting standards. The financial statements are reviewed and recommended by the Audit Committee and approved by the Board. The annual financial statements are audited by the Auditor General of Ontario who expresses an opinion on whether they present the financial results fairly in accordance with Canadian public sector accounting standards. The financial statements and the audit report 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. Unaudited financial statements are prepared quarterly and presented to the Audit Committee and the Board.

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, directly and through the OFA, 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 input from the OEFC Audit Committee and OFA Management. The internal audit plan is approved by the OEFC Audit Committee. The Internal Audit Division reports to the OEFC Audit Committee on the results of their audit work in OEFC.

Board of Directors

Scott Thompson
Chair
Date of initial appointment to OEFC Board of Directors: October 2014
Current term expires: October 2020

Gadi Mayman
Vice-Chair and Chief Executive Officer
Date of initial appointment to OEFC Board of Directors: August 2000
Current term expires: July 2020

Denise Dwyer
Assistant Deputy Minister, Indigenous Education and Well-Being Division, Ministry of Education
Date of initial appointment to OEFC Board of Directors: December 2016
Current term expires: December 2019

Nancy Kennedy
Deputy Minister, Treasury Board Secretariat
Date of initial appointment to OEFC Board of Directors: October 2014
Current term expires: October 2020

Ronald Kwan
Assistant Deputy Minister, Corporate and Electricity Finance Division, OFA
Date of initial appointment to OEFC Board of Directors: January 2013
Current term expires: January 2019

John Lieou
Assistant Deputy Minister, Planning and Policy Division, Ministry of Transportation
Date of initial appointment to OEFC Board of Directors: June 2010
Current term expires: January 2019

Murray Lindo
Date of initial appointment to OEFC Board of Directors: October 2014
Current term expires: December 2018

Maria Mavroyannis
Deputy Assistant Commissioner, Ontario Region, Canada Revenue Agency
Date of initial appointment to OEFC Board of Directors: December 2016
Current term expires: December 2019

Kaili Sermat–Harding
Assistant Deputy Minister, Conservation and Renewable Energy Division, Ministry of Energy
Date of initial appointment to OEFC Board of Directors: November 2017
Current term expires: October 2020

Sriram Subrahmanyan

Assistant Deputy Minister, Tax Policy Division, Ministry of Finance
Date of initial appointment to OEFC Board of Directors: December 2016
Current term expires: December 2019

Cindy Veinot

Assistant Deputy Minister and Provincial Controller, Office of the Provincial Controller Division, Treasury Board Secretariat
Date of initial appointment to OEFC Board of Directors: December 2016
Current term expires: December 2019

Total Annual Remuneration paid to the one external Director for 2017–18: $0.

Directors whose term ended during or after 2017–18

Serge Imbrogno

Resigned: July 2018

Leah Myers

Resigned: October 2017

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 5.0 per cent of outstanding debt. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.
- **Net Interest Rate Resetting Limit** – the interest rate resetting exposure, net of liquid reserves, is limited to a maximum of 35.0 per cent of outstanding debt.

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 without collateral 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 OEFC Treasury program 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 minimal 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 its borrowing activities and other operational matters. The CEO also reports on compliance with applicable government directives.
- The Chief Financial and Risk Officer, 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

Ontario Electricity Financial Corporation	www.oefc.on.ca
Ontario Financing Authority	www.ofina.on.ca
Ministry of Finance	www.ontario.ca/page/ministry-finance
Ministry of Energy	www.ontario.ca/page/ministry-energy
Ontario Power Generation Inc.	www.opg.com
Hydro One Ltd.	www.hydroone.com
Independent Electricity System Operator	www.ieso.ca
Ontario Electrical Safety Authority	www.esasafe.com

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

Ontario Electricity Financial Corporation

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

Telephone: (416) 325-8000

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

ISSN 1492-7551

This Annual Report is also available in French