



**2016-19 BUSINESS PLAN
HIGHLIGHTS**

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Executive Summary

The Ontario Electricity Financial Corporation (OEFC, or the Corporation) is responsible for the management of the debt and certain other liabilities of the former Ontario Hydro. The OEFC assumed approximately \$38.1 billion in debt and other liabilities of the former Ontario Hydro when it was restructured on April 1, 1999. As at March 31, 2015, total debt and liabilities amounted to \$26.3 billion.

Overview of 2015-16 Results

The Ontario Electricity Financial Corporation (OEFC) accomplished the following key objectives presented in its 2015-18 business plan.

1. Manage debt and other liabilities cost-effectively
 - Continued to manage OEFC's debt and other liabilities, with debt outstanding of \$25.8 billion as at January 31, 2016.
2. Manage financial risk within approved policy limits
 - Maintained a zero foreign exchange exposure on outstanding debt principal and maintained net interest rate resetting exposure within policy limits.
3. Manage and administer the OEFC power supply and demand management contracts
 - In 2015-16, to the end of December, achieved \$9.9 million in cost-savings through curtailments.
 - Continued to manage and implement a contract with the Independent Electricity System Operator (IESO) in support of its Industrial Electricity Incentive (IEI) demand management program.
4. Provide financial assistance, as required, to the Ontario Hydro successor corporations
 - Continued to monitor and implement financial assistance from OEFC to Ontario Power Generation (OPG), including a two-year \$800 million credit facility up to December 31, 2016, for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project.
 - Provided analysis and advice to facilitate continuation of the credit facility between the IESO and the OEFC following the amalgamation of the former OPA and IESO, effective January 1, 2015.
5. Support the implementation of the government's electricity industry policies and determine the impact on the OEFC
 - Continuing to support the IEI program, including the new Stream 3.
 - Projections for 2015-16 in Budget 2016 show an excess of revenue over expense of over \$3 billion, which would reduce the Corporation's unfunded liability (or stranded debt) to below \$5 billion. This would be the twelfth consecutive annual decline in the unfunded liability.

- Provided support for the government's policy on broadening Hydro One ownership, including the dedication of a portion of the cashflows related to the initial public offering (IPO) towards paying down the Province's electricity sector debt and other payables. OEFC would also receive a financial benefit as a result of the IPO as per section 50.3 of the *Electricity Act, 1998*.

Key Objectives for 2016-2019 include the following:

- Manage debt and other liabilities cost-effectively.
- Manage financial risk within approved policy limits.
- Manage and administer the non-utility generator (NUG) contracts and demand management contracts.
- Manage and administer a contract with IESO in support of its Industrial Electricity Incentive (IEI) demand management program, and as amended for a new Stream 3 of the program.
- Provide financial assistance as required to the Ontario Hydro successor corporations.
- Support the implementation of the government's electricity industry policies and determine the impact on the OEFC.

Governing Legislation and Mandate

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): Ontario Power Generation Inc. (OPG), Hydro One Inc. (Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and the OEFC.

Pursuant to the Act, the OEFC's mandate includes the following:

- Managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro.
- Managing the former Ontario Hydro's NUG contracts.
- Receiving all payments and administering other assets, liabilities, rights and obligations of the former Ontario Hydro that were not transferred to another of the 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 and a distributor owned or controlled, directly or indirectly, by Her Majesty the Queen in Right of Ontario and licensed by the Ontario Energy Board.
- Entering into financial and other agreements relating to electricity supply or management of electricity demand, in Ontario.
- Performing any additional objects as specified by the Lieutenant Governor in Council.

Strategic Directions and Performance Measures

1. Manage Debt and Other Liabilities Cost-Effectively

- The OEFC has existing long-term debt maturities totalling \$3.0 billion, \$2.1 billion, and \$0.7 billion in 2016-17, 2017-18 and 2018-19 respectively.

2. Manage Financial Risk within Approved Policy Limits

- Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt.
- Maintain net interest rate resetting exposure below 35 per cent of outstanding debt.
- Maintain credit exposures within policy limits.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

- Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.
- Maintain and improve operational systems, applications and infrastructure as required.
- Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms.
- Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines.
- Provide operational and market settlement information and advice in support of legal proceedings, renegotiation of contracts and energy curtailments as required.
- Administer the OEFC's obligations to provide the IESO support for its DRC offset payments made under the IEI demand management program.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

- Provide and monitor credit facilities to OPG and IESO, as needed, for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

- Monitor the financial performance of the successor electricity corporations.
- Meet operational requirements on a timely basis to implement the government's policy initiatives.
- Provide analysis and advice on the impact and financial benefits to OEFC from broadening ownership of Hydro One.
- Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval.
- Timely and responsive implementation of Directives as required.

Environmental Scan: Assessment of Issues Facing the OEFC

Factors that could affect OEFC meeting financial projections or core corporate objectives are described below.

External Factors

- The financial performances of OPG and Hydro One affect OEFC revenues relating to:
 - i) the electricity sector dedicated income from the Province, which is the Province's combined net income from OPG and Hydro One in excess of the Province's interest costs of its investment in its electricity subsidiaries; and
 - ii) OPG and Hydro One payments in lieu of taxes (PILs) to the OEFC, and payments to OEFC in respect of Hydro One provincial corporate income taxes.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through MEU PILs to the OEFC.
- The Ontario Energy Board's (OEB) decisions on regulated rates, including the allowed return on equity, may affect projected OPG and Hydro One's financial performance.
- Additional financial assistance to OPG may be required in the future, including debt maturity refinancing and new loans.
- The Province's progress in broadening Hydro One ownership will affect the OEFC's dedicated income from Hydro One. The proceeds from Hydro One share offerings may affect OEFC's cashflows, refinancing requirements and debt interest costs.

Economic conditions and electricity demand:

- Economic conditions, industrial activity, and higher/lower electricity demand have an impact on the OEFC through net incomes of OPG, Brampton Distribution Holdco Inc. and Hydro One, Hydro One provincial CIT, OPG and MEU PILs, and Debt Retirement Charge (DRC) revenue. An economic downturn/recovery would tend to decrease/increase electricity demand.
- Electricity generation and demand lower/higher than projections in regulatory filings could result in lower/higher revenues for OPG and Hydro One and MEUs respectively in the absence of recovery/return through variance accounts. In addition, lower demand could trigger curtailments for hydroelectric and nuclear production, potentially resulting in a negative financial impact to OPG if these costs are non-recoverable in rates.
- Lower/higher electricity consumption also results in lower/higher DRC revenues.
- Economic conditions may affect pension costs for OPG and Hydro One. Any pension costs not recovered through electricity rates or deviating from forecasts without recovery through variance accounts would lead to reductions in earnings of OPG and Hydro One.

Financial markets:

- Soft inflation and slowing growth led the Bank of Canada to cut the target overnight rate by 50 basis points in 2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until at least the end of 2016. In fact, some believe the Bank may lower rates again by mid-2016.
- In the United States, the Federal Reserve raised rates for the first time since 2006 at its December meeting, citing a solid labour market and expectations for inflation to rise, in the medium-term, towards its 2 per cent target as reasons for the hike. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, the European Central Bank announced additional stimulus measures in December as it struggles to combat low inflation.
- According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to decline from an average of 0.9 per cent in 2014 to 0.5 per cent in 2015, and then increase to 0.6 per cent in 2016. According to the Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.1 per cent in 2015, before rising to 0.8 per cent in 2016.
- Long-term interest rates have been held down in many advanced countries as low oil price and inflation expectations, along with weak global growth prospects, are driving investors to the relative safety of sovereign debt markets. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to average 1.5 per cent in 2015, down from 2.2 per cent in 2014, before rising to 2.0 per cent in 2016. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.2 per cent in 2015, down from 2.5 per cent in 2014, before rising to 2.7 per cent in 2016.

Changes to the government policy environment can affect OEFC revenues and expenses:

- Changes in corporate tax rates up or down would affect OEFC's current and projected future payments-in-lieu of tax revenues to OEFC from OPG and MEUs and current and projected future payments of Hydro One provincial corporate tax income allocated by the Province.
- The government has acted on the Premier's Advisory Council on Government Assets' recommendation of broadening Hydro One's ownership with an initial public offering of approximately 15 per cent with plans to undertake subsequent share sales over time, totalling up to 60 per cent of voting securities in Hydro One, and is moving forward with a merger of Hydro One Brampton with three local urban local distribution companies to encourage consolidation in the distribution sector. Government policy and implementation in moving forward with these plans could affect OEFC's current and projected revenue streams from the Province, Hydro One and MEUs, and affect OEFC's expenses.
- The Province's plan to broaden ownership of Hydro One affects OEFC revenues and expenses relating to
 - i) the electricity sector dedicated income from the Province, as
 - a) a decrease in Provincial ownership will reduce the Province's share of Hydro One net income, and
 - b) the Province's commitment to using proceeds related to the book value of the shares sold and the pre-IPO special dividend payment to pay down payables to OEFC will reduce the Province's interest costs of its investment in Hydro One;

- ii) the financial benefit as per section 50.3 of the *Electricity Act, 1998* related to the sale of Hydro One shares; and
 - iii) interest on debt, as the Province's commitment to using proceeds related to the book value of the shares sold and the pre-IPO special dividend payment to pay down payables to OEFC will provide OEFC with cash inflows that help reduce borrowing requirements.
- Government policy that would affect electricity load, up or down, with an increase or decrease in DRC revenue, up to the legislated end date of April 1, 2018, from commercial, industrial and other electricity users, offset by any expense to support load management.

Resources

OEFC has no employees. Since April 1, 1999, pursuant to a directive from the Minister of Finance, the OFA has conducted borrowing and related debt and risk management activities, cash management, banking, accounting, financial reporting, forecasting and other related activities on a cost-recovery basis for the OEFC.

Many OFA staff perform OEFC-related functions; for efficiency reasons, these staff are integrated with OFA business units. The costs of twenty full-time equivalents (FTEs) and associated overhead are fully recovered from the OEFC. OFA positions are generally excluded from collective bargaining as the OFA performs borrowing and investing on behalf of the Province, including the OEFC.

In accordance with a Memorandum of Understanding (MOU) between the OEFC and the Ministry of Finance, an agreed number of FTEs has been allocated to the Ministry of Finance to provide revenue collection and reporting services. Costs of these positions are fully recoverable from the OEFC.

The OFA works closely with the Ministry of Finance's human resources branch to implement and maintain the government's human resource strategies, policies and practices.

Financial Statements

The OEFC is an operational enterprise agency of the Province. It has a legislated requirement to issue audited financial statements for the fiscal year, which are approved by its Board of Directors and to submit these to the Minister of Finance within 90 days after the end of every fiscal year. The financial statements summarize the OEFC's revenues and expenditures and are tabled in the Legislature once approved by the Minister of Finance. The statements are also included in the Public Accounts of Ontario. The financial results of the OEFC are consolidated with those of the Province for Public Accounts and Budget purposes.

Implementation Plan

For 2016–19, the OEFC intends to implement its business plan using existing resources.

Communications Plan

OEFC updates, including annual reports, bulletins, information for Ontario Hydro bondholders and electricity sector updates can be found on www.oefc.on.ca. Annual financial statements are also available in Volume 2 of the Public Accounts of Ontario. Financial and borrowing updates can be found in the Provincial Budget, the Economic Outlook and Fiscal Review, Ontario's Quarterly Finances and the OFA Bulletin.

The OFA also responds to inquiries from investors about bonds issued by the former Ontario Hydro, as well as inquiries from the public regarding the OEFC and its responsibilities.

Appendix A – Corporate Structure and Accountability

Governing Legislation

Pursuant to the *Electricity Act, 1998* (the Act), OEFC is the legal continuation of Ontario Hydro and is a corporation without share capital. Its legislative mandate is set out in the Act. The Act provides for the appointment by the Lieutenant Governor in Council of a Board of Directors to supervise the management of the OEFC. The Act provides that the CEO is appointed by the Lieutenant Governor in Council, on the recommendation of the Minister of Finance. The CEO is responsible for managing the day to day operations of the OEFC.

Agency Classification

The Act provides that the OEFC is an agent of the Crown. It is classified as a “Board Governed Agency” agency pursuant to Management Board’s Agencies and Appointments Directive.

Minister of Finance

The Minister of Finance is responsible to the Legislature for the fulfilment of the OEFC’s mandate and reporting on the affairs of the OEFC, including tabling of the annual report in the Legislature. The Minister approves the OEFC’s annual business plan, which may also be reviewed at any time at the request of the Minister or Management Board of Cabinet (MBC).

In accordance with MBC requirements, the Minister enters into or affirms a Memorandum of Understanding (MOU) with the OEFC which sets out the OEFC’s mandate and the roles and responsibilities of senior management, including the Chair, Board of Directors and CEO. The MOU also sets out financial and other reporting responsibilities of the OEFC to the Minister. The Minister recommends the approval of the MOU by MBC.

Deputy Minister and Chair

The Deputy Minister of Finance advises the Minister of major issues or developments involving OEFC. Generally, the Deputy Minister is also appointed as Chair of the OEFC. As Chair, he or she provides leadership and direction to the OEFC Board and is responsible for developing the MOU with the Minister and for submitting the annual business plan, including budget, to the Minister.

Corporate Governance

Board of Directors

The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. In accordance with the OEFC's MOU with the Minister of Finance, the OEFC Board performs a supervisory role. It oversees the management of the OEFC and helps to ensure that the OEFC's mandate, as determined by the Province, is implemented. The Board is currently comprised of current and former public servants drawn from relevant government areas.

The Board fulfills its responsibilities through regular meetings of its Audit Committee and meetings of the full Board, receipt of regular reports from management and approval of the OEFC's financial risk policies as well as its internal audit plan, annual business plan and annual report. The Board receives quarterly reports from management regarding OEFC's compliance with applicable laws, directives and policies. The Board may enact by-laws for the OEFC, which must be approved by the Minister of Finance. The Board meets at least once quarterly.

OEFC is required to provide its annual report to the Minister of Finance within 90 days of the fiscal year end, or, if extended by the Minister, by the day on which the Public Accounts of Ontario are released. The annual report is tabled in the Legislature. The OEFC financial statements are consolidated with the Public Accounts of Ontario.

Audit Committee

The Audit Committee supports the Board of Directors. It reviews the OEFC's financial statements and recommends them to the Board of Directors. It also approves the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls. Another function of the Audit Committee is to receive regular reports regarding OEFC's compliance with legal and regulatory requirements and applicable government directives and policies.

Chief Executive Officer (CEO)

The CEO is accountable to the Board for managing the day to day operations of the OEFC in accordance with its annual business plan, the OEFC's by-laws, Board-approved policies, and applicable ministerial and government directives. The CEO reports at each quarterly board meeting regarding the operations of the OEFC. The CEO also reports to the Chair concerning the OEFC.

Employees

The OEFC does not have any employees, although some OFA staff members are designated as officers of the OEFC for the purpose of executing agreements and other documents on its behalf. The OFA and staff in the Ministry of Finance carry out the OEFC's day to day operations under the supervision of the CEO and the OEFC Board.

Ontario Electricity Financial Corporation (OEFC) Organization Chart

