



Ontario Electricity Financial Corporation

## 2024-27 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. OEFC assumed approximately \$38.1 billion in debt and other liabilities of the former Ontario Hydro when it was restructured on April 1, 1999. 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 (and an initial unfunded liability of \$19.4 billion, when taking into account other OEFC assets as of April 1, 1999).

Over time, OEFC’s debt and other liabilities and its unfunded liability have been reduced under the government’s debt repayment plan, with OEFC revenues dedicated to service and pay down its debt and other liabilities.

As a result, OEFC’s debt and other liabilities were \$13.8 billion, and, for the second consecutive year, OEFC’s financial position, as at March 31, 2023, showed an accumulated surplus, with OEFC assets exceeding its remaining debt and other liabilities. The accumulated surplus was \$1,122 million as at March 31, 2023, compared to \$533 million as at March 31, 2022.

The review of OEFC’s mandate is currently underway. In the meantime, the corporation will continue to focus on the management of its debt and liabilities, non-utility generator contracts, the transfer of legacy assets located on First Nation Reserves and providing transparency of the electricity sector assets and liabilities by separately reporting its financial position from the Province’s financial statement, while still being consolidated on a line-by-line basis in the Province’s Public Accounts.

OEFC continues to deliver on its mandate, supported by the Ontario Financing Authority (OFA) and Ministry of Finance. The Ministry of Finance continues to provide oversight of OEFC and assesses its ongoing mandate on a regular basis.

## Overview of Current and Projected Results

OEFC accomplished the following key objectives and will continue to focus on supporting its strategic directions.<sup>[1]</sup>

1. Manage debt and other liabilities cost-effectively
  - Continued to manage OEFC’s debt and other liabilities, with debt and other liabilities outstanding of \$12.7 billion as of September 30, 2023, a reduction of \$1.1 billion since March 31, 2023. Based on the projections for OEFC consistent with the Province’s 2023

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<sup>[1]</sup> The OEFC’s fiscal year end is March 31, 2024, but quantitative performance results provided in this business plan are as of September 30, 2023, unless otherwise noted.

*Budget* fiscal plan, the Corporation projected an excess of revenue over expense of \$0.8 billion, which would increase the Corporation's accumulated surplus to about \$1.9 billion.

2. Manage financial risk within approved policy limits
3. Manage and administer the non-utility generator contracts
  - Supported the Independent Electricity System Operator (IESO) in the development of its forthcoming work in developing a small hydro program.
  - Engaged in discussions with Ministry of Energy and Independent Electricity System Operator on the feasibility of moving remaining non-utility generator facilities with OEFC contracts to the Independent Electricity System Operator. The Minister of Energy has directed the Independent Electricity System Operator to report back on this by March 31, 2024.
  - Carried out a Minister's directive to extend a power purchase agreement.
  - Continued to manage and administer 12 remaining non-utility generator contracts.
4. Provide financial assistance, as required, to the Ontario Hydro successor corporations
  - Continued to implement, provide analysis and advice on, and monitor financial assistance from OEFC to Ontario Power Generation Inc. (OPG), including a credit facility of up to \$750 million for the period from 2022 to 2026.
  - Provided a \$120 million loan and a \$160 million credit facility to Independent Electricity System Operator until June 30, 2023 and supported Independent Electricity System Operator in obtaining new facilities from the Ontario Financing Authority.
5. Support the implementation of the government's electricity industry policies and determine the impact on OEFC
  - Continued to monitor government electricity policy initiatives for any impacts on OEFC.

## **Governing Legislation and Mandate**

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): Ontario Power Generation, Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator, the Electrical Safety Authority and OEFC.

Pursuant to the Act, 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 non-utility generator contracts.
- Receiving all payments and administering other assets, liabilities, rights and obligations of the former Ontario Hydro that were not transferred to another successor corporation 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 electricity supply or management of electricity demand, in Ontario.
- Performing any additional objects as specified by the Lieutenant Governor in Council.

OEFC's key objectives for 2024-27 are consistent with its letter of direction from the Minister of Finance, and as provided under the *Electricity Act, 1998*.

## **Strategic Directions and Performance Measures**

### **1. Manage Debt and Other Liabilities Cost-Effectively**

- OEFC has existing long-term debt maturities totalling \$3.2 billion in 2023-24, \$1.6 billion in 2024-25 and \$2.1 billion in 2025-26.

### **2. Manage Financial Risk within Approved Policy Limits**

- Maintain credit exposures within policy limits.

### **3. Manage and Administer the Non-Utility Generator Contracts**

- Operational systems, applications and infrastructure are maintained and improved, as required.
- Energy payments to the non-utility generator contracts and other relevant parties are calculated, settled and reported 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 as required.
- Negotiate any necessary revisions to the non-utility generator contracts.

### **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 OEFC**

- Monitor, review and respond to developments and/or government policy initiatives in the electricity sector.
- Monitor and analyse any impact from OPG and Hydro One updates on OEFC operating results.

- Timely and accurate financial reporting.
- Implement Directives from the Minister of Finance.

#### **6. Prioritize Digital Transformation Initiatives**

- OEFC receives operational services from the OFA and benefits from OFA's ongoing digital transformation initiatives.

## Environmental Scan: Assessment of Issues Facing OEFC

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

### External Factors

- The financial performances of Ontario Power Generation and Hydro One affect OEFC revenues relating to
  - i) Ontario Power Generation payments in lieu of taxes to OEFC, and payments to OEFC in respect of Hydro One Inc. provincial corporate income taxes.
  - ii) The discretionary electricity sector dedicated income (ESDI) from the Province, which is calculated as the Province's net income from Ontario Power Generation in excess of the Province's interest costs of its investment in Ontario Power Generation.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through municipal electricity utilities payments in lieu of taxes to OEFC.
- Ontario Energy Board decisions on regulated rates, including the allowed return on equity, may affect projected Ontario Power Generation and Hydro One's financial performance and municipal electricity utilities payments in lieu of taxes.
- Additional financial assistance to Ontario Power Generation may be required in the future, including debt maturity refinancing and new loans.
- The performance of Hydro One can affect Hydro One Limited's net income, and may affect Hydro One Inc.'s provincial corporate taxes and the amounts transferred to OEFC.
- Acquisitions of municipally-owned local distribution companies by non-payments in lieu of taxes-paying entities, including Hydro One, would affect transfer tax, departure tax and future payments in lieu of taxes paid to OEFC.

### Economic conditions and electricity demand:

- Economic conditions, industrial activity, and higher/lower electricity demand have an impact on OEFC through net incomes of Ontario Power Generation, Hydro One provincial corporate income taxes, Ontario Power Generation and municipal electricity utilities payments in lieu of taxes. An economic downturn/recovery would tend to decrease/increase electricity demand.
- Electricity demand lower than projections in regulatory filings could result in lower revenues for Ontario Power Generation, Hydro One and municipal electricity utilities in the absence of recovery through variance accounts. In addition, lower demand could trigger curtailments for hydroelectric and nuclear production, potentially resulting in a negative financial impact to Ontario Power Generation if these costs are non-recoverable in rates.

- Economic conditions may affect pension costs for Ontario Power Generation 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 revenues to OEFC related to Ontario Power Generation and Hydro One.

Financial markets:<sup>[2]</sup>

- High inflation has prompted central banks in many countries to raise policy interest rates. Between March 2022 and July 2023, the Bank of Canada raised its target for the overnight rate from 0.25 per cent to 5.00 per cent, contributing to higher government bond rates. The Bank subsequently maintained its target for the overnight rate at 5.00 per cent through the end of 2023 and has signalled that its cycle of interest rate increases may have peaked.
- The Canadian three-month Treasury bill yield rose from an average of 2.3 per cent in 2022 to 4.8 per cent in 2023. According to private-sector forecasters, the Canadian three-month Treasury bill yield is expected to average 4.4 per cent in 2024 before moderating to 3.0 per cent in 2025, and 2.6 per cent in both 2026 and 2027.
- According to private-sector forecasters, the three-month U.S. Treasury bill yield is expected to average 4.8 per cent in 2024 and 3.6 per cent in 2025, 2.8 per cent in 2026 and 2.7 per cent in 2027.
- The 10-year Government of Canada bond yield averaged 3.3 per cent in 2023. According to private-sector forecasters, the 10-year Government of Canada bond yield is projected to average 3.4 per cent in 2024, 3.3 per cent in both 2025 and 2026 and 3.5 per cent in 2027. Private-sector forecasters expect the 10-year U.S. government bond yield to average 3.9 per cent in 2024 and 3.7 per cent in 2025 and 3.5 in each of 2026 and 2027 compared to 4.1 per cent in 2023.

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

- Changes in corporate tax rates or tax deductions or other rules would affect OEFC's current and projected future payments-in-lieu of tax revenues to OEFC from Ontario Power Generation and municipal electricity utilities and current and projected future payments of Hydro One provincial corporate income tax allocated by the Province.
- Government policy and implementation, including electricity rate mitigation initiatives, and business strategy could affect OEFC's current and projected revenue streams from the Province, Ontario Power Generation, Hydro One and municipal electricity utilities, and affect OEFC's expenses.

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<sup>[2]</sup> Update provided by Ontario Ministry of Finance (MOF) on January 11, 2024.

## Resources

OEFC has no employees. Since April 1, 1999, pursuant to a directive from the Minister of Finance, the Ontario Financing Authority conducts 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 OEFC. Ministry of Finance provides revenue collection and reporting services for OEFC, on a cost-recovery basis.

Many Ontario Financing Authority staff perform OEFC-related functions; for efficiency reasons, these staff are integrated with Ontario Financing Authority business units. The costs of twenty full-time equivalents (FTEs) and associated overhead are fully recovered from OEFC. Ontario Financing Authority positions are generally excluded from collective bargaining.

Ministry of Finance was not assigned or allocated full-time equivalents for OEFC. Rather it was agreed that full-time equivalents within Ministry of Finance be allocated to provide revenue collection and reporting services. Costs of these positions are fully recovered from OEFC.

## Financial Statements

OEFC is an operational enterprise agency of the Province. By law, the Auditor General of Ontario audits OEFC's financial statements, which are included in the Annual Report it generally must provide to the Minister of Finance with 90 days of receiving its audited financial statements from the Auditor General. The Annual Report is made available on OEFC's website tabled in the Legislative Assembly. The financial results of OEFC are consolidated with those of the Province for Public Accounts and Budget purposes.

## Initiatives Involving Third Parties

OEFC manages and administers electricity contracts with non-utility generators. It may consult with the provincial government and the Independent Electricity System Operator, and retain external service providers in relation to the power purchase agreements. Hydro One and Ontario Power Generation operate and maintain OEFC's legacy assets on First Nation Reserves on OEFC's behalf, until the issuance of permits and transfer of those assets to Hydro One and Ontario Power Generation. OEFC also relies on various service providers, such as the Ontario Financing Authority, Ministry of Finance and auditors, in connection with its operations.

There are no other third parties, other than the provincial government and its agencies, with which OEFC is partnering or with which it has a funding relationship for the purpose of delivering OEFC programs. OEFC does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

## Implementation Plan

For 2024–25, OEFC intends to implement its business plan using existing resources.

## Communications Plan

In 2024–27, OEFC will continue to communicate with the public and stakeholders through various documents and using various methods including:

1. OEFC Website: OEFC publishes its business plan, annual reports and audited financial statement, and information for Ontario Hydro bondholders and non-utility generators at [www.oefc.on.ca](http://www.oefc.on.ca).
2. Provincial Publications: Financial and borrowing updates can be found in the Provincial Budget, the Economic Outlook and Fiscal Review and Ontario's Quarterly Finances.

The Ontario Financing Authority also responds to inquiries from investors about bonds issued by the former Ontario Hydro, as well as inquiries from the public regarding OEFC and its responsibilities. In addition, the Ontario Financing Authority is responsible for the development of communication vehicles for OEFC and will continue to maintain the OEFC website.

## Ontario Electricity Financial Corporation Organization Chart

