

Ontario Electricity Financial Corporation Bulletin

November 20, 2003 **2003 OEFC Annual Report Highlights** www.oefc.on.ca

Financial Highlights

OEFC financial highlights for 2002-03:

- Sold \$1.9 billion of the Hydro One notes held since April 1, 1999, resulting in a gain of \$206 million for OEFC. This sale represented the largest-ever corporate debt trade in the Canadian domestic debt market.
- Reduced total debt outstanding by \$2.5 billion to \$26.8 billion from \$29.4 billion as at March 31, 2002. OEFC has reduced total debt outstanding by over \$4.5 billion from its peak on March 31, 2000.
- Lowered total debt exposed to fluctuations in foreign currencies to 6.3 per cent of outstanding debt from 7.5 per cent and down from 14.5 per cent at the time of OEFC's establishment in 1999.

Business Achievements

OEFC accomplished its key objectives for 2002-03:

Achieved cost-effective borrowing and debt management and prudent risk management;

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Negotiated revisions to certain contracts with non-utility generators (NUG contracts) to facilitate their integration into the competitive electricity market;

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Continued to develop the necessary infrastructure to manage the NUG contracts and related exposures in a competitive market in a cost-effective and prudent manner; and

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Managed the Electricity Consumer Price Protection Fund (ECPDF) created under the *Electricity Pricing, Conservation and Supply Act, 2002*.

2002-03 Borrowing and Debt Management

In 2002-03, the Province completed OEFC's borrowing requirements, including long-term debt maturities of \$2,775 million, through \$2,084 million raised from the sale of Hydro One notes held since April 1, 1999, and the issuance of \$967 million in long-term debt.

Long-term borrowing was completed through two Province of Ontario U.S. dollar global issues and two domestic issues that were on-lent to OEFC:

- C\$425 million (Canadian dollar equivalent) raised from a portion of a US\$750 million U.S. dollar global issue maturing in December 2005;
- C\$447 million (Canadian dollar equivalent) raised from a US\$300 million U.S. dollar global issue maturing in March 2008; and
- C\$95 million raised from two non-public debentures maturing in January and June 2022.

Risk Management

Foreign Exchange Exposure: OEFC's total debt exposed to fluctuations in foreign currencies declined to 6.3 per cent as a result of active debt management and hedging strategies which took advantage of a strengthening Canadian dollar to reduce the foreign exchange exposure of OEFC's debt portfolio.

Floating Interest Rate Exposure: OEFC's exposure to changes in short-term rates was 13.5 per cent as at March 31, 2003.

Risk Exposures (Percentage of Outstanding Debt)	2003	2002	Policy Limit
Foreign Exchange Exposure	6.3	7.5	20.0*
Floating Interest Rate Exposure (net of liquid reserves)	13.5	9.8	20.0

*The foreign exchange policy limit will be reduced to five per cent as soon as feasible and prudent.

Management of Power Purchase Agreements

- In the late 1980s and early 1990s, the former Ontario Hydro entered into approximately 90 long-term power purchase agreements (PPAs) with non-utility generators (NUGs) located in Ontario. These PPAs, which expire on various dates until 2048, represent approximately 1,700 megawatts of generating capacity and approximately \$750 million per year in cash outflow. The PPAs account for about six to eight per cent of the generating capacity available to meet Ontario's energy requirements.
- As the continuation of Ontario Hydro, OEFC is responsible for these contracts. The NUG liability had been valued at \$4,286 million on a discounted cash-flow (DCF) basis since Ontario Hydro was continued as OEFC on April 1, 1999. Since the electricity market was opened in this fiscal year, the DCF model was updated as of March 31, 2003, which reduced the estimated liability from \$4,286 million to \$3,745 million.

OEFC Objectives in 2003-04

OEFC's activities for 2003-04 will be focused on the following corporate objectives:

- Continue to perform borrowing, risk management, cash management, banking and accounting services as required in managing and retiring the outstanding debt and derivative contracts of the former Ontario Hydro;
- Assist in the implementation of the government's electricity policy decisions and coordinate economic and financial issues related to the industry;
- Continue negotiating revisions to the non-utility generator (NUG) contracts to ensure that the contracts are consistent with the competitive market; and
- Discharge OEFC's liability to the nuclear decommissioning fund related to generating stations of the former Ontario Hydro.

Debt Repayment Plan

OEFC's obligations are being repaid from the following revenue sources:

Notes Receivable

OEFC receives principal and interest payments from the Province, Ontario Power Generation Inc. (OPG), Hydro One and the Independent Electricity Market Operator (IMO) arising from the restructuring of the electricity sector.

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Payments-in-Lieu of Tax (PILs)

OEFC receives payments-in-lieu of corporate income, capital and property taxes made by OPG, Hydro One and municipal electric utilities (MEUs).

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Debt Retirement Charge (DRC)

The DRC was introduced on May 1, 2002, the date the electricity market opened to competition, and is paid by electricity consumers. The DRC is administered by the Ministry of Finance on behalf of OEFC and will end once the residual stranded debt is retired. Prior to May 1, 2002, OEFC received the residual of the revenue pool. This pool, managed by OPG, collected revenues from electricity consumers and allocated revenues to OPG, Hydro One and IMO, with the residual going to OEFC.

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Electricity Sector Dedicated Income

The combined net incomes of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries are dedicated to the retirement of OEFC's debt.

The long-term debt repayment plan supports a current estimate that OEFC's obligations will likely be defeased in 2012.

Additional Information

Ontario Electricity Financial Corporation (OEFC), an agency of the Province of Ontario, is a statutory, non-share capital corporation and the legal continuation of Ontario Hydro.

A full set of 2002-03 OEFC financial statements can be found in the 2003 OEFC Annual Report at www.oefc.on.ca

Contact (416) 325-8000 or email investor@oefc.on.ca to request a hard copy of the report.