Financial Results

For the year ended March 31, 2006, revenues totalled $3,954 million, while expenses were $2,884 million, resulting in an excess of revenue over expense of $1,070 million, compared to the prior year's excess of revenue over expense of $187 million.

The improvement in 2005–06 financial results is primarily attributable to higher payments-in-lieu of taxes from Ontario Power Generation Inc. (OPG) and Hydro One, a year of the full recovery of the cost of power purchase agreements (PPAs) with non-utility generators (NUGs), and the amortization of the NUG liability.

Revenues

Total revenues for 2005–06 were $3,954 million, an increase of $829 million from 2004–05. Revenues included $1,021 million from the Debt Retirement Charge (DRC), $737 million in interest income from the Province, OPG and the Independent Electricity System Operator (IESO), $785 million in power sales under the PPAs and $949 million in payments-in-lieu of tax.

Expenses

Total expenses for 2005–06 were $2,884 million, a decrease of $54 million from 2004–05. Expenses included interest payments on short- and long-term debt of $1,802 million, power purchases of $809 million and interest on the nuclear funding liability of $69 million.

2005-06 Borrowing Program

In 2005–06, the OFA completed the OEFC's long-term public borrowing requirements of $1.7 billion. This amount includes the refinancing of $1.6 billion of long-term debt maturities. The 2005–06 borrowing requirements declined from $2,442 million estimated at the time of the 2005 Ontario Budget, due to a reduction in OPG financing requirements, an increase in planned short-term borrowing levels, a deferred call of $347 million in long-term debt maturities until 2006-07, and early repayment of a loan for the NUGs.

Long-term public borrowing was completed primarily in the Canadian domestic market. Two Euro Medium Term Notes were also issued, for a Canadian dollar equivalent of $171 million.

The performance of the borrowing program is measured through the difference between the "all-in" cost of the actual borrowing program against the all-in costs of hypothetical domestic borrowing of the same term and size implemented evenly over the fiscal year ("even-pace benchmark"). During 2005–06, the cost of the borrowing program was $10 million lower than the even-pace benchmark, on a present value basis.

Risk Management

The OEFC has risk management policies and procedures in place to manage market, credit and operational risk exposures associated with its debt, derivatives and related capital markets transactions.

Foreign exchange and floating rate exposures remained within policy limits in 2005-06.

- Floating interest rate exposure was 9.6 per cent of total debt as at March 31, 2006, within the limit of 20 per cent.

- Foreign exchange exposure was 0 per cent of total debt as at March 31, 2006. The foreign exchange exposure limit for the OEFC is 5 per cent.

Debt Repayment Plan

As the legal continuation of the former Ontario Hydro, the OEFC services and retires the debt and other liabilities through revenues and cash flows from the following sources within the electricity sector:

- Outstanding notes receivable from the Province, OPG and IESO;
- Payments-in-lieu (PILs) of corporate income, capital and property taxes, made by OPG, Hydro One and municipal electric utilities;
- Debt Retirement Charge paid by electricity consumers; and
- Electricity sector dedicated income: the Province's combined cumulative net incomes from OPG and Hydro One in excess of the Province's interest cost of its investment in these electricity subsidiaries.

Management of Power Purchase Agreements

During 2005–06, the OEFC negotiated revisions to 14 NUG contracts to facilitate their integration into the competitive electricity market and reduce above-market costs, bringing the total revised contracts to 41 contracts.

The OEFC achieved efficiencies in managing the existing PPAs with the NUGs in 2005–06. NUG costs were reduced by $1.1 million through auxiliary services revenue, incremental power transactions and other transactions which increase or shift the time of generation by a NUG under the contracts.

Until December 31, 2004, the OEFC purchased power under the terms of the contracts with the NUGs and sold the power at market prices that were less than cost. The liability to the OEFC of the contracts is valued at $3,389 million as at March 31, 2006. The OEFC began receiving actual contract prices for power from ratepayers, effective January 1, 2005, and no longer incurs losses on these power purchase contracts.

Outlook for 2006-07

- The OFA will continue to manage the debt and liabilities of the OEFC in a cost-effective manner, and within exposure policy limits reviewed and established by the Board of Directors. In addition, the OFA will complete the OEFC's 2006–07 long-term public borrowing requirements of $3.7 billion, of which $3.5 billion is for the refinancing of maturities, in a sound and prudent manner.

- The OEFC also intends to discharge the remaining commitment-in-lieu for nuclear liabilities associated with the financial restructuring of the former Ontario Hydro by making payments when cost-effective borrowing opportunities in the public capital markets arise.

- The OEFC will continue to minimize costs to ratepayers, provide effective administration of the NUG contracts and continue to negotiate revisions to the remaining NUG contracts to ensure that these are consistent with the electricity sector as it develops.

- On June 13, 2006, the Minister of Energy announced the Supply Mix Directives to the Ontario Power Authority and related initiatives. The OEFC will support, as required, the implementation of these and related government electricity policy initiatives.