



Ontario Electricity Financial Corporation

2021-24 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).

As of March 31, 2020, total debt and liabilities amounted to \$18.4 billion, and OEFC’s unfunded liability was \$1.2 billion.

As a result of the COVID-19 pandemic, OFA employees who perform functions for OEFC have been functioning away from OFA offices since mid-March 2020. The OFA continues to utilise its business continuity plan framework, while meeting all critical deliverables for OEFC.

Overview of 2020-21 Projected Results

OEFC accomplished the following key objectives.^[1]

1. Manage debt and other liabilities cost-effectively
 - Continued to manage OEFC’s debt and other liabilities, with debt outstanding of \$16.6 billion as of December 31, 2020.
 - The Corporation’s projected results are for a continued reduction in the unfunded liability in 2020-21, by an estimated \$0.3 billion. OEFC has continued to manage its debt and other liabilities, with a reduction in revenues from the statutory elimination of the Debt Retirement Charge as of April 1, 2018.
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 non-utility generator (NUG) contracts
 - In 2020-21, to the end of December, achieved \$1.4 million in cost-savings through curtailments.
 - Carried out directives to extend the Calstock Power Purchase Agreement (PPA) for a total of 18 months to December 2021, which had originally been due to expire in June 2020.
 - Continued to support the Independent Electricity System Operator’s (IESO) initiative for gas-fired non-utility generators (NUGs) with PPAs with OEFC to terminate and/or suspend their contracts with OEFC to enter into agreements with IESO that provide an incentive to NUGs to manage operations in a manner that is better aligned with the integrated power system’s needs, reducing OEFC costs and costs to ratepayers.
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 an \$800 million credit facility, for financing

^[1] The OEFC’s fiscal year end is March 31, 2021, but quantitative performance results provided in this business plan are as of December 31, 2020, unless otherwise noted.

general corporate purposes, including the Darlington refurbishment project. This credit facility was executed on July 17, 2019 and will expire on December 31, 2021.

- Continued to implement, provide analysis and advice on, and monitor financial assistance to the IESO. A \$120 million loan refinancing was renewed and a \$160 million credit facility was extended to the IESO, both effective from July 1, 2020, to June 30, 2023, to provide the IESO with flexibility to meet financing liquidity requirements.
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.
 - Projections for 2020-21 show an excess of revenue over expense of about \$0.3 billion, which would reduce the Corporation's unfunded liability (or stranded debt) to about \$0.9 billion.

Key Objectives for 2021-2024, consistent with its mandate letter from the Minister of Finance, and as provided under the *Electricity Act, 1998*, 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.
- 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 OEFC.

Governing Legislation and Mandate

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): OPG, Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the IESO, 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 NUG 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.

Strategic Directions and Performance Measures

1. Manage Debt and Other Liabilities Cost-Effectively

- OEFC has existing long-term debt maturities totalling, \$1.4 billion, \$1.8 billion, \$1.4 billion and \$3.2 billion in 2020-21, 2021-22, 2022-23 and 2023-24 respectively.

2. Manage Financial Risk within Approved Policy Limits

- Maintain unhedged exposure to foreign currencies below three 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 Non-Utility Generator Contracts

- Produce cost savings while protecting the interests of the ratepayers.
- Operational systems, applications and infrastructure are maintained and improved, as required.
- Energy payments to the NUGs 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 and energy curtailments as required.

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.

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 OPG and Hydro One affect OEFC revenues relating to
 - i) OPG payments in lieu of taxes (PILs) 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 OPG in excess of the Province's interest costs of its investment in OPG.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through MEU PILs to OEFC.
- Ontario Energy Board decisions on regulated rates, including the allowed return on equity, may affect projected OPG and Hydro One's financial performance and MEU PILs.
- Additional financial assistance to OPG may be required in the future, including debt maturity refinancing and new loans.
- The financial performance of Hydro One can be affected by actual or attempted acquisition activity, affecting Hydro One Limited's net income, and may affect Hydro One Inc.'s provincial corporate taxes and the amounts transferred to OEFC.
- Acquisitions of local distribution sector by non-PIL-paying entities of municipally-owned local distribution companies would affect transfer tax, departure tax and future PILs 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 OPG, Hydro One provincial CIT, OPG and MEU PILs. 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 OPG, Hydro One and MEUs 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 OPG if these costs are non-recoverable in rates.
- 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 revenues to OEFC related to OPG and Hydro One.

Financial markets:

- Short term interest rates declined sharply early in 2020 as central banks around the world responded to the economic risks related to the COVID-19 pandemic. This included the Bank of Canada reducing the overnight rate to ¼ per cent, its effective lower bound, and engaging in quantitative easing. Both the Bank of Canada and U.S. Federal Reserve have signalled they will keep rates at current low levels at least until 2023.
- According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to average 0.2 per cent in 2021 and 2022 before rising to 0.4 per cent in 2023.
- According to Blue Chip Economic Indicators, the three-month U.S. Treasury bill rate is expected to average 0.1 per cent in 2021 and 0.2 per cent in 2022.
- The 10-year Government of Canada bond rate averaged 0.7 per cent in 2020. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise to an average of 1.0 per cent in 2021 and then to 1.3 per cent in 2022. According to the *Blue Chip Economic Indicators*, the yield on 10-year U.S. government notes is expected to rise from an average 1.1 per cent in 2021 to 1.5 per cent in 2022.

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 OPG and MEUs 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, OPG, Hydro One and MEUs, and affect OEFC's expenses.
- Potential local distribution company acquisitions by Hydro One would move the income related to those entities out of the PILs regime, reducing OEFC PILs.

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 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 OEFC. OFA positions are generally excluded from collective bargaining as the OFA performs borrowing and investing on behalf of the Province, including OEFC.

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

The OFA works closely with the Ministry of Finance's Strategic Human Resources Branch to implement and maintain the government's human resource strategies, policies and practices.

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 and 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 NUGs, including suspension and termination agreements. In its management of these contracts, OEFC may consult with the provincial government and the IESO, and retain external consultants.

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. Moreover, 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 2021–24, OEFC intends to implement its business plan using existing resources.

Communications Plan

OEFC communicates its results and updates, including annual reports, bulletins, and information for Ontario Hydro bondholders and electricity sector updates, which can be found on www.oefc.on.ca. 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 OEFC and its responsibilities.

Appendix – 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 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 OEFC. The Act provides that the Chief Executive Officer (CEO) is appointed by the Lieutenant Governor in Council, on the recommendation of the Minister of Finance.

Agency Classification

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

Minister of Finance

The Minister of Finance is responsible to the Legislative Assembly for the fulfilment of OEFC’s mandate and reporting on the affairs of OEFC, including tabling of its annual report in the Assembly. The Minister approves 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 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.

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 Board. The Chair 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 OEFC's MOU with the Minister of Finance, the OEFC Board performs a supervisory role. It oversees the management of 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.

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 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, which must be approved by the Minister of Finance. The Board meets at least quarterly.

OEFC is required to provide its annual report to the Minister of Finance within 90 days of receiving its audited financial statements from the Auditor General 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 Legislative Assembly.

Audit Committee

The Audit Committee supports the Board of Directors. It reviews 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

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

Employees

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

Ontario Electricity Financial Corporation (OEFC) Organization Chart

