Ontario

OEFC

ONTARIO ELECTRICITY FINANCIAL CORPORATION

2016

Annual Report

Mandate

Ontario Electricity Financial Corporation (OEFC or the Corporation) is one of five entities established by the *Electricity Act, 1998* (the Act) as part of the restructuring of the former Ontario Hydro.

Under the Act, the former Ontario Hydro was restructured into Ontario Power Generation Inc. (OPG), Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and OEFC.

In accordance with the Act, OEFC has the following mandate:

- managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro;
- managing the former Ontario Hydro's contracts with non-utility generators (NUGs);
- receiving all payments and administering other assets, liabilities, rights and obligations of the Corporation that were not transferred to another of the former Ontario 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;
- entering into financial and other agreements relating to the supply and demand management of electricity in Ontario; and
- performing any additional objects specified by the Lieutenant Governor in Council.

OEFC retains the services of the Ontario Financing Authority (OFA) and the Ministry of Finance to carry out its daily operations on a cost-recovery basis. The OFA is the agency of the Province of Ontario (the Province) responsible for Provincial borrowing and debt management.

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Statement from the Chair and Chief Executive Officer

We are pleased to present OEFC's 2016 Annual Report, which describes the Corporation's operational highlights and financial results for the year ended March 31, 2016.

Revenue exceeded expense by $3.7 billion in 2015–16, primarily reflecting the impact of the Hydro One initial public offering (IPO), including a significant, one-time payment-in-lieu (PIL) of tax to OEFC from Hydro One in advance of the IPO. The Corporation's unfunded liability was reduced from $8.1 billion to $4.4 billion as at March 31, 2016.

The unfunded liability has declined for twelve consecutive years. It is $15 billion less than the initial unfunded liability on April 1, 1999, when the former Ontario Hydro was restructured. Total debt and liabilities are $25.1 billion, down from the $38.1 billion inherited by the Corporation from the restructuring.

Cost savings of $11.7 million were achieved through the management of the power purchase agreements with non-utility generators (NUGs).

Looking ahead to 2016–17, the Corporation will continue to manage its debt and liabilities in a cost-effective manner and support the implementation of the government's electricity policies and initiatives.

Scott Thompson
Chair

Gadi Mayman
Vice-Chair and Chief Executive Officer

Management's Discussion and Analysis

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Management's Discussion and Analysis

2015–16 HIGHLIGHTS

- Largest annual excess of revenue over expense for OEFC of $3.7 billion, decreasing its unfunded liability by that amount
- Twelfth consecutive annual decline in OEFC's unfunded liability
- Achieved cost-savings of $11.7 million by managing power purchase agreements

Financial Results

Revenue and Expense

Total revenue for 2015–16 was $6.0 billion, an increase of $1,952 million from 2014–15. The increase in revenue was primarily due to $3,228 million in payments-in-lieu (PIL) of taxes in 2015–16, up from $192 million in 2014–15, due to a significant one-time PIL of tax from Hydro One as a result of its initial public offering (IPO) in November 2015. This includes a $2.6 billion departure tax from Hydro One. Other revenue included $859 million from the Debt Retirement Charge (DRC); $875 million in power supply contract recoveries; $723 million in interest income from the Province, OPG and the IESO; $3 million in Electricity Sector Dedicated Income (ESDI) from the Province in respect of OPG and Hydro One net incomes; and $172 million in financial benefit from the Province.

Total expense was $2.3 billion, a decrease of $145 million from 2014–15. Expenses included interest payments on debt of $1,319 million and power supply contract costs of $875 million.

Overall, revenue exceeded expense by $3.7 billion. In 2014–15, revenue exceeded expense by $1.6 billion.

In comparison to OEFC's budget, which was established prior to the government's announcement on the planned Hydro One IPO, revenues came in at about $2.5 billion above projections, primarily due to higher than projected PIL of taxes, with smaller variances from power supply contract recoveries, and a financial benefit from the Province, partially offset by lower than projected ESDI; while expenses were $58 million above budget, due to higher power supply contract costs partially offset by a decrease in debt interest costs.

Borrowing Program

In 2015–16, the OFA undertook $1.1 billion in long-term public borrowing for the Corporation, most of which was to refinance long-term debt maturities.

Long-term public borrowing was completed in the Canadian dollar market.

Debt and Liabilities

The Corporation inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured in 1999. This amount included $30.5 billion in total debt.

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. The initial unfunded liability of $19.4 billion was the stranded debt adjusted for $1.5 billion of additional assets.

As at March 31, 2016, total debt and liabilities were $25.1 billion, with total debt of $24.3 billion. These figures compare to total debt and liabilities of $26.3 billion, with total debt of $25.3 billion, as at March 31, 2015.

The unfunded liability was $4.4 billion as at March 31, 2016, a decrease of $3.7 billion from March 31, 2015. This is the twelfth consecutive annual decline in the unfunded liability and $15 billion below the $19.4 billion level as at April 1, 1999.

Debt Repayment Plan

OEFC services and retires the debt and other liabilities of the former Ontario Hydro from the following revenue and cash flow sources in the electricity sector:

- Outstanding notes receivable from the Province, OPG and IESO
- PIL of corporate income and property taxes, and Gross Revenue Charges made by OPG, Hydro One and municipal electric utilities
- Subsequent to the Hydro One IPO, Hydro One no longer pays PIL of corporate income tax to OEFC. Under the Electricity Act, 1998, provincial corporate taxes payable by Hydro One Inc. are due and payable by the Province to OEFC
- DRC paid by electricity consumers
- Electricity sector dedicated income - the Province's combined cumulative net income from OPG and Hydro One in excess of the Province's interest cost of its investment in these subsidiaries

The Debt Retirement Charge, Stranded Debt and Residual Stranded Debt

As originally enacted, the *Electricity Act, 1998*, allowed for the DRC to be paid by consumers until the retirement of the residual stranded debt.

The estimated retirement of residual stranded debt was subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depended on the financial performance of OPG, Hydro One, and municipal electric utilities, as well as other factors such as interest rates and electricity consumption.

As included in the *2014 Budget*, the government has removed the DRC cost from residential electricity users' electricity bills as of January 1, 2016. The residential rate class accounts for about a third of electricity load subject to the DRC. The government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to legislate a fixed end-date for the DRC of April 1, 2018, for commercial, industrial and all other users.

With a fixed legislative end-date to the DRC, the *Electricity Act, 1998* was also amended by the *Budget Measures Act, 2015,* to repeal all reference to the "stranded debt" and "residual stranded debt." This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Following the end of the DRC, OEFC will continue to receive other dedicated revenues, such as PILs, the amount equal to Hydro One Inc.'s provincial corporate income taxes, and the gross revenue charge paid to the OEFC to help service and pay down its unfunded liability.

Impact of Broadening Hydro One Ownership

In November 2015, the Province moved forward with the Hydro One Initial Public Offering (IPO), as well as certain other share sales. This initiative had a number of significant impacts on OEFC's financial results for the year ended March 31, 2016.

- In November 2015, Hydro One Inc. and certain subsidiaries paid a departure tax of $2.6 billion to OEFC as a consequence of leaving the PIL of corporate income tax regime. Hydro One also paid a one-time additional PIL of tax payment of $191 million associated with the transaction. These cash PILs payments did not have a direct net impact on OEFC's unfunded liability, as the departure tax and incremental PILs amount, as expenses to Hydro One, reduce Hydro One net income, and in consequence, reduce the Province's Electricity Sector Dedicated Income transfer to OEFC in respect of Hydro One net income.
- Subsequent to the IPO, Hydro One is no longer subject to PIL of corporate income tax payments to OEFC, but as per an amendment to the *Electricity Act, 1998*, passed as part of the *Budget Measures Act, 2015*, Provincial corporate income taxes payable by Hydro One Inc. will be due and payable by the Province to OEFC.
- The Province used the cash it received from a pre-IPO special dividend payment from Hydro One of $800 million to pay down the Province's payables to OEFC. This did not affect OEFC's unfunded liability.
- As per section 50.3 of the *Electricity Act, 1998*, OEFC recognized a financial benefit from the Province of $172 million in connection with the disposition of Hydro One shares in the year ended March 31, 2016.

With broadened Hydro One ownership, the Province has a reduced ownership interest in Hydro One. This reduced ownership interest results in a reduced share of Hydro One net income. The 2015–16 ESDI has reflected the Province's share of Hydro One net income, including the impacts on the Province of a deferred tax benefit recorded by Hydro One, as well as the departure tax and additional PILs paid by Hydro One Inc.

The Province has also stated that proceeds related to the book value of the shares sold will be used to pay down the Province's electricity sector debt and other payables to OEFC.

Risk Management

OEFC's risk management policies and procedures are designed to manage risk exposures associated with the Corporation's debt, derivatives and related capital market transactions.

Foreign exchange and net interest rate resetting exposures remained within policy limits in 2015–16.

- Foreign exchange exposure remained effectively at 0.0 per cent of outstanding debt as at March 31, 2016. The foreign exchange exposure limit for OEFC is 5.0 per cent.

- Net interest rate resetting exposure was 7.6 per cent of outstanding debt as at March 31, 2016, within the limit of 35.0 per cent.

Other Responsibilities

Management of Power Supply Contracts

Efficiencies were achieved in managing the existing power purchase agreements with the NUGs in 2015–16. Purchase costs were lower by $11.7 million, compared to being lower by $7.4 million in 2014–15, through curtailments.

Previously, the Corporation purchased power from the NUGs under contractual terms, and sold the power at market prices lower than cost. However, as at January 1, 2005, the Corporation began to receive actual contract prices for power from ratepayers, eliminating losses on power purchase contracts. At that time, the Ministry of Finance estimated most of the liability would be eliminated over 12 years as existing contracts expire. The liability for power purchase agreements was valued at $0.3 billion as at March 31, 2016, compared to $0.5 billion as at March 31, 2015.

Supporting New Electricity Supply Projects

Beginning in 2005, the Corporation began to provide financing on commercial terms to OPG for new electricity supply projects.

For instance, OEFC provided financing under a loan agreement with OPG for the Niagara Tunnel Project, which came into service in March 2013, increasing the water available for electricity generation at the Sir Adam Beck hydro complex in Niagara Falls.

Other completed OPG supply projects financed by OEFC are the Portlands Energy Centre and Lac Seul hydroelectric project.

Supporting the Implementation of the Government's Electricity Policies

OEFC is also supporting the Independent Electricity System Operator's (IESO) electricity demand management program and the Industrial Electricity Incentive (IEI) program. OEFC will support the IEI by providing payments to the IESO that will serve to offset the cost of the DRC portion of the electricity bill paid to OEFC on IEI-eligible incremental consumption by IEI participants. This program is designed to be cost-neutral for OEFC. Note that the contract was originally between the former Ontario Power Authority (OPA) and the OEFC, and, subsequent, to the January 1, 2015, merger of the IESO and the OPA into a new entity, also called the IESO, the contract is now between the IESO and OEFC.

2016–17 Outlook

OEFC will focus on the following:

Managing debt and other liabilities cost-effectively

The OFA will continue to manage OEFC's debt and other liabilities in a cost-effective manner.

Managing financial risk within approved policy limits

The debt portfolio will be managed within exposure limits approved by OEFC's Board of Directors (the Board) for 2016–17.

Administering NUG contracts

The Corporation will continue to minimize costs to ratepayers through effective administration of the NUG contracts.

Providing financing as required to the Ontario Hydro successor corporations

The Corporation will facilitate the cash flow requirements of the Ontario Hydro successor corporations as required.

Supporting the implementation of the government's electricity industry policies and analyzing and monitoring the impact on the Corporation

The Corporation will continue to support the government's electricity initiatives as requested, and will monitor and analyze their impact on the Corporation.

Financial Statements

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Financial Statements

Responsibility for Financial Reporting

The accompanying financial statements of OEFC have been prepared in accordance with Canadian public sector accounting standards and are management's responsibility. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to September 14, 2016.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. The Ontario Internal Audit Division of the Treasury Board Secretariat independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee assists the Board in carrying out these responsibilities. The Audit Committee periodically meets with management, the internal auditors and the external auditors to deal with issues raised by them, and to review the financial statements before recommending Board approval.

The financial statements have been audited by the Auditor General of Ontario (the Auditor). The Auditor's responsibility is to express an opinion on whether OEFC's financial statements fairly present OEFC's financial position in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

Gadi Mayman
Vice-Chair and Chief Executive Officer

Ken Kandeepan
Chief Financial and Risk Officer

Auditor’s Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l’Ontario

Independent Auditor’s Report

To the Ontario Electricity Financial Corporation and the Minister of Finance

I have audited the accompanying financial statements of the Ontario Electricity Financial Corporation, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Electricity Financial Corporation as at March 31, 2016, and the results of its operations, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Canada
September 14, 2016

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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Ontario Electricity Financial Corporation

Statement of Financial Position

As at March 31, 2016 ($ millions)

	2016	Restated (Note 16) 2015
ASSETS		
Cash and cash equivalents	$ 3,425	$ 1
Accounts receivable (Note 4)	466	527
Interest receivable	31	30
Due from Province of Ontario (Note 5)	4,281	4,903
Notes and loans receivable (Note 6)	12,524	12,755
	$ 20,727	$ 18,216
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	$ 104	$ 127
Interest payable	393	387
Debt (Note 8)	24,345	25,320
Power purchase contracts (Note 10)	307	479
	25,149	26,313
NET DEBT	(4,422)	(8,097)
NON-FINANCIAL ASSETS		
Deferred costs (revenue) on hedging	29	(1)
UNFUNDED LIABILITY (Notes 1, 3, 12, 16)	$ (4,393)	$ (8,098)
Contingencies and guarantees (Note 13)		

Approved on behalf of the Board:

Scott Thompson
Chair

Gadi Mayman
Vice-Chair and Chief Executive Officer

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Operations and Change in Unfunded Liability

For the year ended March 31, 2016 ($ millions)

		2016		Restated (Note 16) 2015
REVENUE				
Debt retirement charge (Notes 1, 12)	$	859	$	956
Payments-in-lieu of tax (Notes 1, 12, 15)		3,228		192
Interest (Note 6)		723		727
Power supply contract recoveries (Note 10)		875		950
Net reduction of power purchase contracts (Note 10)		172		217
Electricity sector dedicated income (Notes 5, 12)		3		1,038
Financial benefit from the Province related to the disposition of Hydro One Shares (Notes 5, 12)		172		–
Other		9		9
	$	6,041	$	4,089
EXPENSE				
Interest on debt	$	1,319	$	1,385
Power supply contract costs (Note 10)		875		950
Debt guarantee fee		127		131
Operating		7		6
Industrial electricity incentive program costs (Note 11)		8		9
		2,336		2,481
Excess of revenue over expense		3,705		1,608
Unfunded liability, beginning of year as previously reported		(8,185)		(9,781)
Prior period adjustment (Note 16)		87		75
Unfunded Liability, beginning of year restated		(8,098)		(9,706)
Unfunded liability, end of year	$	(4,393)	$	(8,098)

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Cash Flow

For the year ended March 31, 2016 ($ millions)

	2016	Restated (Note 16) 2015
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess of revenue over expense	$ 3,705	$ 1,608
Adjustments for:		
Net reduction of power purchase contracts (Note 10)	(172)	(217)
Decrease in accounts receivable (Note 4)	61	201
Increase in interest receivable	(1)	–
Decrease (increase) in due from province of Ontario (Note 5)	622	(1,038)
Decrease in accounts payable and accrued liabilities (Note 7)	(23)	(36)
Increase (decrease) in interest payable	6	(28)
Increase in deferred costs (revenue) on hedging	(30)	(5)
Other items	7	8
Cash provided from operations	$ 4,175	$ 493
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issued	$ 1,073	$ 1,875
Long-term debt retired	(2,033)	(2,686)
Short-term debt (retired) / issued, net	(21)	10
Note receivable repayment, net	230	302
Cash required by financing activities	(751)	(499)
Increase (decrease) in cash and cash equivalents	3,424	(6)
Cash and cash equivalents, beginning of year	1	7
Cash and cash equivalents, end of year	$ 3,425	$ 1
Cash and cash equivalents consist of:		
Cash	12	1
Cash equivalents	3,413	–
	$ 3,425	$ 1
Interest on debt paid during the period and included in excess of revenue over expense	$ 1,313	$ 1,413

See accompanying notes to financial statements.

Notes to Financial Statements

1) Nature of Operations

Effective April 1, 1999, pursuant to the *Electricity Act, 1998* (the Act), Ontario Hydro was continued as a corporation without share capital under the name "Ontario Electricity Financial Corporation" (OEFC or Corporation). The Corporation is one of five entities established by the Act as part of the restructuring of the former Ontario Hydro. It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

OEFC is a Crown agency whose mandate includes:

- managing the debt and administering the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities and managing the former Ontario Hydro's non-utility generator (NUG) contracts;
- providing financial assistance to the successor corporations of Ontario Hydro; and
- entering into financial and other agreements relating to the supply and demand management of electricity in Ontario.

These other successor entities are:

- Ontario Power Generation (OPG), an electricity generation company;
- Hydro One, a regulated electricity transmission and distribution company;
- Independent Electricity System Operator (IESO), the regulated, independent system operator responsible for directing system operations, operating the electricity market, planning for and securing resources to meet medium and long-term energy needs, and coordinating conservation efforts; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the Ministry of Finance determined that the estimated value of the assets being transferred to the new entities was $17.2 billion, which was exceeded by the former Ontario Hydro's total debt and other liabilities of $38.1 billion. OPG, Hydro One (and their subsidiaries) and the IESO were transferred assets valued at $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. The resulting shortfall of $20.9 billion was determined by the Ministry of Finance to be "stranded debt." After adjusting for $1.5 billion in loans and other assets retained by OEFC, $19.4 billion was the unfunded liability reflected on the OEFC opening balance sheet.

To allow OEFC to service and retire $38.1 billion in total debt including the $20.9 billion in stranded debt, the Province established a long-term plan where debt service and repayment would be through dedicated revenues from electricity-sector companies. This would be broken down for the electricity sector as follows:

- Notes receivable from the Province, OPG, Hydro One and IESO;
- Payments in lieu of taxes (PILs), which are equivalent to the corporate income, property and capital taxes paid by private corporations;

- Debt retirement charge (DRC) paid by electricity consumers; and
- The cumulative combined profits of OPG and Hydro One in excess of the government's $520 million annual interest cost of its investments in the two companies.

As of April 1, 1999, the present value of the PILs and the cumulative combined profits of OPG and Hydro One in excess of the government's $520 million annual interest cost of its investments in the two companies was estimated at $13.1 billion. As a result, subtracting the $13.1 billion from the stranded debt of $20.9 billion resulted in an initial estimate of $7.8 billion, for the residual stranded debt.

The Act provided for the DRC to be paid by electricity consumers until the residual stranded debt was retired. The 2014 Budget announced that the government would remove the DRC from residential users' electricity bills as of January 1, 2016. At March 31, 2014, the residual stranded debt was $2.6 billion. In addition, the 2015 Fall Economic Statement announced the proposed removal of the DRC for all commercial, industrial and all other electricity consumers as of April 1, 2018. Pursuant to this announcement, the *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and all reference to the "stranded debt" and "residual stranded debt" were removed. This also included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete.

2) Summary of Significant Accounting Policies

Basis of Accounting
As OEFC is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

Net Debt Presentation
A statement of changes in net debt is not presented since this information is readily apparent. Due to the unique nature of the corporation, no budget figures have been provided.

Measurement Uncertainty
Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty in these financial statements exists in the valuation of the power purchase contracts and payments-in-lieu of tax revenue, payments-in-lieu of tax receivable and tax refundable. Estimates are based on the best information available at the time of preparation of the financial statements.

Cash and Cash Equivalents
Cash and cash equivalents include cash on deposit and highly liquid investments recorded at cost and mature within one year.

Revenue Recognition

The main sources of revenue are:

- **Debt retirement charge (DRC)** from ratepayers is recognized based on the consumption of electricity.
- **Payments-in-lieu of taxes (PILs)** are recognized in the period that they are earned from OPG, Hydro One (pre-IPO) and municipal electric utilities.
- **Power supply contract recoveries** are recovered at the same amount as the costs incurred on the Power supply contracts.
- **Electricity sector dedicated income** is allocated at the discretion of the Province of Ontario, using the cumulative combined net income of OPG and Hydro One (related to the Province's ownership) in excess of the Province's interest costs of its investment.
- **Provincial allocation related to the sale of Hydro One** is recognized in accordance with section 50.3 of the *Electricity Act, 1998* where OEFC receives a benefit as a result of the sales of Hydro One shares.

Financial Instruments

The corporation's financial assets and liabilities are accounted for as follows:

- Cash and cash equivalents is subject to an insignificant risk of change in value so carrying value approximates fair value.

- Accounts Receivable, Due from Province and Notes and Loans Receivable are recorded at cost.

- Debt is composed of short, medium and long-term bonds, notes and debentures. Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at year-end rates of exchange and, in accordance with Canadian public sector accounting standards, any exchange gains or losses are deferred and amortized over the remaining term to maturity.

- Discounts, premiums and commissions arising from the issuance of debt or the acquisition of debt prior to maturity are deferred and amortized to operations over the life of the underlying debt. Unamortized debt issue costs are included in total debt.

- Derivatives are financial contracts the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options. Derivatives are recognized at cost on the date on which derivatives are entered and are not subsequently re-measured at fair value at each reporting date.

Deferred Costs on Hedging
Fees and other costs from debt related derivatives are deferred and amortized to operations over the life of the underlying debt. Unamortized amounts are classified under non-financial assets.

Accounts payable and accrued Liabilities
Accounts payable relate to normal business transactions with third-party suppliers and are subject to standard commercial terms.

Power Purchase Contracts
The liability for power purchase contracts was originally calculated by discounting estimated losses over the life of the contracts. Under the *Electricity Restructuring Act, 2004*, OEFC began receiving actual contract prices for power from electricity consumers, effective January 1, 2005, and no longer incurs losses on these power purchase contracts. At that time, the Ministry of Finance estimated that the bulk of the liability would be eliminated over 12 years as existing electricity contracts expire. As a result, the bulk of the liability is being amortized to revenue over that period.

3) Going Concern

OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying its outstanding notes receivable. It is also dependent on the government's long-term plan to defease the unfunded liability as described in Note 12.

4) Accounts Receivable

As at March 31 ($ millions)	**2016**	**2015**
Debt retirement charge	$ 91	$ 137
Payments-in-lieu of tax	284	294
Power supply contract recoveries	83	89
Other receivables	8	7
Total	**$ 466**	**$ 527**

5) Due from the Province

In 1999, the Province put in place a policy commitment to allocate annually the combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC. Under these arrangements, the Province recoups all costs associated with its investments in electricity subsidiaries on a cumulative basis before any of the combined net income is allocated to and recognized by OEFC.

For the year ended March 31, 2016, for the purposes of Electricity Sector Dedicated Income, the Province's combined net income of OPG and Hydro One was $523 million which includes adjustments as a result of the Initial Public Offering (IPO) (2015 – $ 1,558 million). After deducting the Province's $520 million interest cost of its investment in these subsidiaries, the Province at its discretion allocated to OEFC electricity sector dedicated income of $3 million (2015 – $1,038 million).

Section 50.3 of the *Electricity Act, 1998* governs the payments to be made to the Corporation in respect of the disposition of any securities of Hydro One. For fiscal 2015–16, OEFC recognized $172 million from the Province under section 50.3 in connection with the Hydro One share sales in November 2015.

In addition, a new section of the Electricity Act, section 91.2, requires the Province to pay to the Corporation an amount equal to the amount of tax payable under the *Taxation Act, 2007* by Hydro One Inc. (or subsidiaries). For fiscal 2015–16, OEFC has recognized $2.9 million under section 91.2.

On February 19, 2016, the Province paid $800 million to OEFC which was applied to reduce OEFC's receivable related to cumulative electricity sector dedicated earnings.

6) Notes and Loans Receivable

($ millions)					
	Maturity Date	**Interest Rate**	**Interest Payable**	**March 31, 2016**	**March 31, 2015**
The Province	2039–2041	5.85	Monthly	$ 8,885	$ 8,885
OPG	2016–2042	2.96 to 6.33	Semi-Annually	3,465	3,665
IESO	2017	Variable/2.05	Monthly/ Semi-Annually	90	120
				12,440	12,670
Add: Loans receivable from NUGs				84	85
Total				**$ 12,524**	**$ 12,755**

OEFC has agreed with OPG and the IESO not to sell notes owing from these successor entities without their prior approval.

The Province

As previously noted above, at the time of restructuring the former Ontario Hydro, the Province received equity of $8.9 billion in OPG and Hydro One in exchange for assuming debt payable to OEFC. There has been no additional borrowing by the Province.

OPG

OEFC has agreed to provide OPG financing for new generation project development in the form of 10-year and 30-year notes on commercial terms and conditions.

Under the Niagara tunnel project agreement, the OEFC has agreed to provide for up to $1.6 billion loan whereby $1.1 billion has been advanced with borrowing under the facility now complete.

The OEFC has agreed to provide up to $700 million in support of OPG's investment for the Lower Mattagami project. As at March 31, 2016, there has been no borrowing under this credit facility agreement. The facility agreement is set to expire June 30, 2016.

The OEFC has agreed to provide up to $800 million for general corporate purposes, including the Darlington refurbishment project, expiring on December 31, 2016. As at March 31, 2016, there has been no borrowing under this credit facility agreement.

Set out below is a summary by year of maturity of OPG's debt to OEFC ($ millions):

Fiscal Year	Amount
2016–17	$ 320
2017–18	1,125
2018–19	260
2019–20	505
2020–21	420
2021–22	185
2022–23	130
2023–24	20
2040–41	150
2041–42	350
Total	**$ 3,465**

IESO

In April 2014, OEFC refinanced a note receivable with the IESO, originally maturing on April 30, 2014 for an additional 3 years. The refinancing increased the principal outstanding from $78.2 million as at March 31, 2014 to $90 million as at April 30, 2014.

In April 2014, OEFC also extended the expiry date of its revolving credit facility to the IESO to April 30, 2017, and decreased the credit facility from $110 million to $95 million. The credit facility bears interest at a floating rate equal to the Province's cost of borrowing for a 30 day term plus 50 basis points. The facility will be used for liquidity purposes and to temporarily fund working capital requirements. At March 31, 2016, IESO had no balance drawn on the credit facility.

NUGs

Loans receivable from NUGs at March 31, 2016 totalled $84 million (2015 – $85 million).

OEFC's interest income for 2016 of $723 million (2015 – $727 million) included interest from notes receivable of $701 million (2015 – $715 million) and $22 million (2015 – $12 million) from other sources including temporary investments.

7) Accounts Payable and Accrued Liabilities

As at March 31 ($ millions)	2016	2015
Power supply contract costs	$ 88	$ 93
Payments-in-lieu of tax refundable	12	31
Other liabilities	4	3
Total	**$ 104**	**$ 127**

8) Debt

Debt at March 31, 2016, is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

Currency ($ millions)	Canadian Dollars	U.S. Dollars	Other Foreign	2016 Total	2015 Total
Maturing in:					
1 year	$ 4,122	$ –	$ 485	$ 4,607	$ 3,684
2 years	1,645	295	179	2,119	2,973
3 years	482	74	153	709	2,119
4 years	1,384	–	–	1,384	727
5 years	1,361	–	–	1,361	1,384
1–5 years	8,994	369	817	10,180	10,887
6–10 years	9,628	–	–	9,628	8,839
11–15 years	1,215	–	–	1,215	2,317
16–20 years	850	–	–	850	850
21–25 years	1,328	–	–	1,328	1,312
26–50 years	1,157	–	–	1,157	1,157
	$ 23,172	**$ 369**	**$ 817**	**$ 24,358**	**$ 25,362**
Debt issue costs				**(13)**	**(42)**
Total				**$ 24,345**	**$ 25,320**

The effective rate of interest on the debt portfolio was 5.14 per cent after considering the effect of derivative instruments used to manage interest rate risk (2015 – 5.17 per cent). The longest term to maturity is to December 2, 2046. Total foreign currency denominated debt at March 31, 2016 was $1.2 billion, 100 per cent of which was fully hedged to Canadian funds (2015 – $1.3 billion or 100 per cent). Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

($ millions)	March 31, 2016 Held by the Province	Guaranteed by the Province	Total	March 31, 2015 Held by the Province	Guaranteed by the Province	Total
Short-term debt	$ 1,630	–	$ 1,630	$ 1,651	–	$ 1,651
Current portion of long-term debt	2,977	–	2,977	2,033	–	2,033
Long-term debt	13,428	6,310	19,739	15,326	6,310	21,636
Total	**$ 18,035**	**$ 6,310**	**$ 24,345**	**$ 19,010**	**$ 6,310**	**$ 25,320**

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing OEFC's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of OEFC debt at March 31, 2016, was $29.3 billion (2015 – $31.1 billion). This is higher than the book value of $24.3 billion (2015 – $25.3 billion) because current interest rates are generally lower than the interest rates at which the debt was issued and because of exchange rate movements. The fair value of debt does not reflect the effect of related derivative contracts.

9) Risk Management and Derivative Financial Instruments

OEFC operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost-effective manner. A variety of strategies are used including the use of derivative financial instruments ("derivatives"). Derivatives are financial contracts, the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange/currency risk

Foreign exchange or currency risk is the risk foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, derivative contracts are used to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency debt principal, net of foreign currency holding, to reach a maximum of 5.0 per cent of total debt. At March 31, 2016, the actual unhedged level was 0.0 per cent of total debt (2015 – 0.0 per cent).

Net Interest Rate Resetting Risk

Net interest rate resetting risk is the exposure to changes in interest rates. Exposure to rate changes is reduced by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt and fixed rate debt maturing within the next 12 months, net of liquid reserves, to reach a maximum of 35.0 per cent of total debt.

At March 31, 2016, net interest rate resetting risk as a percentage of total debt was 7.6 per cent (2015 – 19.6 per cent).

Liquidity Risk

Liquidity risk is the risk OEFC will not be able to meet its current short-term financial obligations. As explained in Note 3, OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying its outstanding notes receivable.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at March 31, 2016, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value

As at March 31, 2016 ($ millions)

Maturity in years Fiscal year	2017	2018	2019	2020	2021	6–10 Years	Over 10 Years	Total	March 2015
Cross-currency swaps	$ 763	$ 665	$ 203	$ –	$ –	$ –	$ –	$ 1,631	$ 1,701
Interest rate swaps	1,123	623	706	–	–	100	653	3,205	3,421
Forward foreign exchange contracts	498	–	–	–	–	–	–	498	530
Total	**$ 2,384**	**$ 1,288**	**$ 909**	**$ –**	**$ –**	**$ 100**	**$ 653**	**$ 5,334**	**$ 5,652**

Credit Risk

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which OEFC has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2016.

Credit Risk Exposure ($ millions)	March 31, 2016	March 31, 2015
Gross credit risk exposure	$ 263	$ 248
Less: Netting	(218)	(202)
Net credit risk exposure	**$ 45**	**$ 46**

OEFC manages its credit risk exposure from derivatives by, among other ways, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, OEFC enters into contractual agreements ("master agreements") that provide for termination netting and, if applicable, payment netting with most of its counterparties. Gross credit risk exposure represents the loss OEFC would incur if every counterparty to which OEFC had credit risk exposure were to default at the same time, and the contracted netting provisions were not exercised or could not be enforced. Net credit risk exposure is the loss including the mitigating impact of these netting provisions.

10) Power Supply Contracts

Power supply contracts include both power purchase contracts and power supply support agreements. Power purchase contracts and related loan agreements were entered into by the former Ontario Hydro with NUGs located in Ontario. As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts. The contracts, expiring on various dates to 2048, provide for the purchase of power at prices in excess of future market price. Accordingly, a liability was recorded at $4,286 million on a discounted cash-flow (DCF) basis when the former Ontario Hydro was continued as OEFC on April 1, 1999.

Under legislated reforms to the electricity market, OEFC began receiving actual contract prices for power from ratepayers effective January 1, 2005, and no longer incurs losses on these contracts going forward. At that time, the Ministry of Finance estimated the bulk of the liability to be eliminated over 12 years as existing electricity contracts expire. As a result, the Corporation is amortizing the bulk of the liability to revenue over that period. The table below presents the unamortized liability.

Statement of Liability for Power Purchase Contracts
As at March 31, 2016 ($ millions)

	2016	2015
Liability, beginning of year	$ 479	$ 696
Amortization	(172)	(217)
Liability, end of year	**$ 307**	**$ 479**

In addition, effective January 1, 2009, OEFC entered into a support contract, the Contingency Support Agreement (CSA), with OPG whereby OPG agreed to maintain the reliability and availability of Lambton and Nanticoke coal-fired stations following implementation of a greenhouse gas emissions-reduction strategy. Under the contract, OEFC agreed to ensure OPG would recover the actual costs of operating the stations after implementing this strategy. Any costs to OEFC under this agreement are fully recovered from ratepayers. As at December 31, 2013, OEFC triggered an early termination clause in the CSA to reflect the advanced closure of these plants by one year to the end of 2013. OPG is allowed to recover actual costs that cannot reasonably be avoided or mitigated, during the period from the early shut down date until December 31, 2014, consistent with the original end date of the CSA.

During the year ended March 31, 2016, OEFC's costs under power supply contracts totalled $875 million, including purchases of power from NUGs of $865 million (2015 – $902 million) and OPG support contract costs of $10 million (2015 – $48 million).

11) Industrial Electricity Incentive Program Costs

Consistent with its objects, OEFC is supporting the IESO's electricity demand management program, the Industrial Electricity Incentive (IEI) program. The IEI program assists with the management of electricity demand by encouraging increased industrial production through electricity-based price adjustments. Offered in three streams, qualified participants can receive reduced electricity rates for eligible incremental consumption over a specified term.

On March 31, 2014, OEFC entered into a legal agreement with the former OPA to support Stream 1 and Stream 2 of the IEI program, and amended on May 13, 2015, to accommodate the new Stream 3. Subsequent to the January 1, 2015 merger of the IESO and the OPA into a new entity, also called the IESO, the contract is now between the IESO and the OEFC. OEFC is providing payments to the IESO to offset the cost of the DRC portion of the electricity bill paid to OEFC on IEI-eligible incremental consumption by IEI participants. The agreement is currently set to be effective until December 31, 2024, when Stream 3 is set to end, with contracts subject to various termination clauses. The IESO has not executed any Stream 1 contracts.

The Budget Measure Act, 2015, passed on December 10, 2015 will remove the DRC as of April 1, 2018 for all commercial, industrial and all other electricity consumers. OEFC will no longer provide offsetting payments to the IESO on IEI-eligible incremental electricity consumed beginning April 1, 2018.

12) Unfunded Liability

Pursuant to the Act and consistent with the principles of electricity restructuring, the government has a long-term plan to defease the unfunded liability from the electricity sector.

The plan includes funds from the following sources:

Prior to the Hydro One IPO (see note 15), these funds included Notes Receivable, PILs, Gross Revenue Charges (GRC), DRC and ESDI.

Following the Hydro One IPO, these funds include Notes Receivable, PILs, GRC, Provincial Corporate Income Taxes allocated to OEFC from taxes payable by Hydro One Inc. in accordance with *The Budget Measures Act, 2015*, DRC, ESDI and a financial benefit from the proceeds of the IPO and any future share sales in accordance with section 50.3 of the *Electricity Act, 1998*.

13) Contingencies and Guarantees

OEFC is involved in various legal actions arising out of the ordinary course and conduct of business. For some claims which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999, OPG or Hydro One is required to indemnify OEFC for any liability arising from the claim. There are currently no such claims. For claims on which OEFC is provided no indemnification and where the outcome and ultimate disposition of these legal actions is not determinable at this time, the settlements, if any, will be reflected in the period in which settlement occurs.

Prior to October 31, 2015, subject to a $10 million deductible, OEFC agreed to indemnify Hydro One in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the company at April 1, 1999, and any failure of the transfer order to transfer such assets, rights or things and with respect to payment to or from or other dealing with any equity account of Ontario Hydro, including certain related litigation. Effective October 31, 2015, OEFC and Hydro One, with the consent of the Minister of Finance, terminated this indemnity. A similar indemnity provided to OPG was terminated as of May 31, 2006.

OEFC was contingently liable under guarantees given to third parties that had provided long-term financing to certain independent power producers in connection with the power purchase agreements described in Note 10. The final loan payments were made in February 2016 and therefore there were no guarantees outstanding at March 31, 2016 (2015 – $4 million).

Under a decision dated March 12, 2015 the Ontario Superior Court of Justice found that following the enactment of Ontario Regulation 398/10 under which the allocation of the Global Adjustment among electricity consumers was changed effective as of January 1, 2011, the Corporation had incorrectly calculated the price indices under certain power purchase agreements between the Corporation and the applicant non-utility generators (NUGs). OEFC appealed this decision to the Ontario Court of Appeal. On April 19, 2016, OEFC's appeal was dismissed. On June 20, 2016 OEFC applied to the Supreme Court of Canada for leave to appeal the decision of the Court of Appeal. The application is expected to be determined before the end of 2016. On September 13, 2016, the application for stay was denied by the Ontario Court of Appeal. As a result, the Corporation will pay $179 million in retroactive payments including interest to the applicant NUGs which is fully recoverable from IESO via the Global Adjustment and accordingly there is no financial impact on the financial statements.

14) Related Party Transactions

In the normal course of operations, OEFC has transactions with the following related parties:

a) Province of Ontario
b) Ontario Power Generation Inc.
c) Hydro One Inc. (for the period up to October 2015) and Hydro One Ltd. (post IPO)
d) Independent Electricity System Operator

The Corporation has entered into several agreements with the following entities:

Ontario Financing Authority

The Ontario Financing Authority (OFA), an agency of the Province responsible for borrowing and investing monies for the Province and other public bodies, provides day-to-day management services to OEFC on a cost-recovery basis of $3.7 million (2015 – $3.6 million).

Ministry of Finance (MOF)

MOF provides revenue collection and reporting services to OEFC on a cost-recovery basis amounted to $1.7 million (2015 – $1.9 million).

15) Broadening Hydro One Ownership

On April 16, 2015, the Province announced that it would proceed with an IPO of about 15 per cent of Hydro One in 2015–16, with subsequent share sales over time, totalling up to 60 per cent of its voting securities in Hydro One. Legislation was passed that restricts the Province from selling more than 60 per cent of the voting securities in Hydro One. The 2015 Budget bill, *Building Ontario Up Act, 2015* included an amendment to the *Electricity Act, 1998* to ensure that OEFC benefits from broadening ownership of Hydro One, thus contributing to the continuing reduction of its unfunded liability.

On November 5, 2015, the Province completed the first phase of its plan to broaden Hydro One ownership. It sold about 16 per cent of the Province's outstanding Hydro One common shares at a price of $20.50 per share, through an IPO and through related share sales to electricity sector union trusts.

On November 4, 2015, Hydro One paid a departure tax of $2.6 billion to OEFC as a consequence of leaving the PILs regime. Hydro One also paid a one-time additional PIL of tax payment of $191 million associated with the transaction.

As a result of the Hydro One IPO, Hydro One and all its subsidiaries are subject to corporate income taxes (CIT). Under the amendments made to the *Electricity Act, 1998* in the fall *Budget Measures Act, 2015*, the Minister of Finance must pay the OEFC an amount equal to provincial tax payable under the Taxation Act, 2007 by Hydro One Inc., to continue to help service and pay down the electricity sector stranded debt.

Proceeds related to the book value of the shares sold and the special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables. On February 19, 2016, the Province paid OEFC the $800 million which it had received as a special dividend applied to reduce OEFC's receivable related to cumulative electricity sector dedicated earnings (Due from the Province of Ontario).

In accordance with section 50.3 of the *Electricity Act, 1998*, OEFC recognized a financial benefit from the Province of $172 million in connection with the Province's disposition of Hydro One common shares in the year ended March 31, 2016.

The Province also initiated a secondary share offering of Hydro One shares on April 5, 2016 which upon completion reduced the Province's holdings of Hydro One to approximately 70 per cent.

16) Restatement of Comparative Figures

The Ministry of Finance has determined certain hydro-electric generating stations have incorrectly remitted Gross Revenue Charge payments to the Minister of Finance instead of OEFC. The error was attributable to the enactment of the *Provincial Land Tax Act, 2006* by Bill 151 *Budget Measures Act 2006* which repealed ss. 92.1(2.1) of the *Electricity Act, 1998* effective January 1, 2009.

Misallocated payments from January 1, 2009 to March 31, 2016 total $99 million including $87 million relating to periods prior to fiscal 2016, thereby increasing OEFC's payments-in-lieu of tax and accounts receivable for fiscal 2015 as set out below:

		2015	
($ millions)	**Previously Stated**	**Change**	**Restated**
Financial Position:			
Accounts Receivable	$ 440	$ 87	$ 527
Opening Unfunded Liability	$ (9,781)	$ 75	$ (9,706)
Closing Unfunded Liability	$ (8,185)	$ 87	$ (8,098)
Statement of Operations:			
Payments-in-lieu of tax revenue	$ 180	$ 12	$ 192
Excess of revenue over expense	$ 1,596	$ 12	$ 1,608

17) Comparative Figures

Certain of the prior year’s comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

Corporate Governance

- **Overview**
- **Board of Directors**
- **Risk Management Policies and Procedures**

Corporate Governance

Overview

OEFC is an agent of the Crown and is classified by Management Board of Cabinet as a board-governed provincial agency.

Corporate governance at OEFC involves processes that permit the effective supervision and management of OEFC's activities by senior management, the Board, its Audit Committee, and the Minister of Finance. It includes identifying individuals and groups responsible for the Corporation's activities and specifying their roles.

Accountability and Responsibilities

OEFC's accountability structure flows from its governing statute, the Act. The Act together with policies issued by Management Board of Cabinet and the Minister of Finance form a framework under which OEFC is governed.

Each year, the Minister of Finance is required to submit OEFC's Annual Report to the Lieutenant Governor in Council and then table the Annual Report in the Legislature. In addition, the Minister of Finance reviews and approves OEFC's annual business plan. The Minister also maintains communications with OEFC, through its Chair, regarding government policies and issues relevant to OEFC.

The Chair is accountable to the Minister of Finance for the performance of OEFC in fulfilling its mandate. The current Chair is also the Deputy Minister of Finance. The Chair is responsible for providing advice and information to the Minister of Finance with regard to the operation and affairs of OEFC. In addition, the Chair provides leadership to OEFC. As Deputy Minister of Finance, the Chair ensures organizational capacity in the Ministry to monitor OEFC and ensures that it manages its risks appropriately.

The Board is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance and is accountable to the Minister through the Chair. The Board performs a supervisory role, overseeing the management of the business and affairs of OEFC to ensure OEFC's mandate, as determined by the Province, is fulfilled. The Board is largely comprised of public servants employed by the Crown. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of OEFC and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

The Audit Committee of the Board approves an annual internal audit plan and liaises with OEFC's internal auditors and the Auditor General of Ontario regarding financial reporting and internal controls. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit Committee is the review of the Corporation's major risks and mitigation strategies.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. The CEO works under the direction of the Chair and the Board to implement policies and operational decisions, and reports the agency's performance to the Board through the Chair. The CEO is responsible for managing the day-to-day operations and ongoing activities of OEFC in accordance with government policies.

The Corporation does not have employees, although some OFA employees are designated as officers for executing agreements and other instruments on the Corporation's behalf. The OFA carries out the Corporation's day-to-day operations under the supervision of the Board and pursuant to a Services Agreement between the OFA and OEFC. In addition, the Ministry of Finance collects certain payments on behalf of OEFC.

Financial Reporting

OEFC prepares annual financial statements in accordance with Canadian public sector accounting standards. The financial statements are reviewed and recommended by the Audit Committee and approved by the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly in accordance with Canadian public sector accounting standards. The financial statements and the audit report are reviewed by the Audit Committee and the Board. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included as a schedule to the Public Accounts of the Province. Unaudited financial statements are prepared quarterly and presented to the Audit Committee and the Board.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting and to safeguard OEFC's assets and manage its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, OEFC, directly and through the OFA, uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning
- written communication of policies and procedures governing corporate conduct and risk management
- segregation of duties
- maintenance and retention of detailed records
- responsible delegation of authority and personal accountability
- careful selection and training of personnel
- regularly updated accounting and financial risk policies.

As part of its annual business plan, OEFC conducts a risk assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on input from the OEFC Audit Committee and OFA Management. The internal audit plan is approved by the OEFC Audit Committee. The Internal Audit Division reports to the OEFC Audit Committee on the results of their audit work in OEFC.

Board of Directors

Scott Thompson
Chair and Deputy Minister of Finance
Date of initial appointment to OEFC Board of Directors: October 2014
Current term expires: October 2017

Gadi Mayman
Vice-Chair and Chief Executive Officer
Date of initial appointment to OEFC Board of Directors: August 2000
Current term expires: July 2017

Serge Imbrogno
Deputy Minister of Energy
Date of initial appointment to OEFC Board of Directors: April 2008
Current term expires: April 2017

Nancy Kennedy
Assistant Deputy Minister, Revenue Agencies Oversight Division
Audit Committee Member
Date of initial appointment to OEFC Board of Directors: October 2014
Current term expires: October 2017

Ronald Kwan
Assistant Deputy Minister, Corporate and Electricity Finance Division, OFA
Date of initial appointment to OEFC Board of Directors: January 2016
Current term expires: January 2019

John Lieou
Assistant Deputy Minister, Planning and Policy Division, Ministry of Transportation
Date of initial appointment to OEFC Board of Directors: January 2016
Current term expires: January 2019

Murray Lindo
Date of initial appointment to OEFC Board of Directors: December 2015
Current term expires: December 2018

Diane McArthur
Chief Talent Officer, Office of the Chief Talent Officer, Center for Leadership and Learning, Treasury Board Secretariat
Audit Committee Member
Date of initial appointment to OEFC Board of Directors: October 2014
Current term expires: October 2017

Total Annual Remuneration paid to the two external Directors for 2015–16: $1,000

Directors whose term ended during 2015–16

Bruce L. Bennett, OEFC Board of Directors
Term expired: June 2015

Nancy Naylor, OEFC Board of Directors
Term expired: June 2015

Risk Management Policies and Procedures

Overview

The Corporation's risk management policies and procedures provide for the management of risk exposures created by capital market activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to debt and derivatives portfolios and capital markets transactions.

These policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada and the Bank for International Settlements and by consulting with Canadian bank representatives on their risk management practices.

The Board and Management committees establish and approve risk management policies and monitor the performance of the OFA's capital market activities related to OEFC.

Market Risk Policy

Market risk is the risk of financial loss attributable to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- **Foreign Exchange Limit** – unhedged foreign currency exposure is limited to 5.0 per cent of outstanding debt. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.
- **Net Interest Rate Resetting Limit** – the interest rate resetting exposure, net of liquid reserves, is limited to a maximum of 35.0 per cent of outstanding debt.
- **Management Trigger Level** – this is an aggregate loss trigger level covering both the Province and OEFC to prevent a potentially large loss resulting from capital market transactions.

Credit Risk Policy

Credit risk is the risk that a counterparty defaults on its financially contracted obligations. Credit risk arises when the OFA undertakes financial and derivative transactions on behalf of OEFC. The minimum credit rating of a new counterparty for swap transactions without collateral is AA- and R1-mid, A-1 or P-1 for money market investments. The resulting exposure to a financial counterparty is capped at mark-to-market limits depending on the counterparty's credit rating and capital base.

Policy on the Use of Derivatives and Financial Instruments

Use of derivatives and other financial instruments is restricted to those that the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from the borrowing and debt management programs in a sound and efficient manner. Risks arising from the use of derivatives are monitored and managed prudently.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events. The OFA manages operational risk relating to OEFC through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers OEFC's operations), which is regularly updated to facilitate the continuation of essential operational functions with minimal disruption in the event of an emergency.

Policy on Risk Management Reporting

At its regular quarterly meetings, the Board is kept informed of the Corporation's activities:

- The CEO of OEFC provides the Board with a progress report on its borrowing activities and other operational matters. The CEO also reports on compliance with applicable government directives.
- The Chief Financial and Risk Officer, OFA Risk Control Division, reports on program exposures and performance, as well as exceptions to policies.

In addition, OFA Management is informed of the Corporation's risk exposures and positions on a daily basis so it can direct appropriate actions on behalf of OEFC.

Additional Sources of Information

Internet

Ontario Electricity Financial Corporation	www.oefc.on.ca
Ontario Financing Authority	www.ofina.on.ca
Ministry of Finance	www.fin.gov.on.ca
Ministry of Energy	www.energy.gov.on.ca
Ontario Power Generation Inc.	www.opg.com
Hydro One Ltd.	www.hydroone.com
Independent Electricity System Operator	www.ieso.ca
Ontario Electrical Safety Authority	www.esasafe.com

Inquiries

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OEFC

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