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Bulletin: 2005 Annual Report Highlights

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Financial Results

For the year ended March 31, 2005, revenues totalled \$3,125 million, while expenses totalled \$2,938 million, resulting in an excess of revenue over expense of \$187 million, compared to the prior year's deficiency of revenue over expense of \$367 million.

The improvement in 2004–05 financial results is primarily attributable to the elimination of the net cost of the ECPPF to the OEFC (\$253 million in 2003–04), the elimination of expenditures for temporary generation (\$70 million in 2003–04) and the full recovery of contract prices for PPAs starting January 1, 2005. Including the amortization of the liability for power purchase contracts, the net revenue to the OEFC on power operations was \$6 million in 2004–05, up from a net cost of \$183 million in 2003–04.

As at March 31, 2005, the OEFC's unfunded liability was \$20.4 billion, a decrease of \$0.2 billion from March 31, 2004.

Revenues

The OEFC's total revenues for 2004–05 were \$3,125 million, an increase of \$103 million from 2003–04. Revenues included \$997 million from the Debt Retirement Charge, \$741 million in interest income from the Province, OPG and the IESO, \$610 million in power sales under the PPAs and \$511 million in payments-in-lieu of tax.

Expenses

The OEFC's total expenses for 2004–05 were \$2,938 million, a decrease of \$451 million from 2003–04. Expenses included interest payments on short- and long-term debt of \$1,785 million, power purchases of \$840 million and interest on the nuclear funding liability of \$93 million.

2004-05 Borrowing Program

In 2004–05, the OFA completed the OEFC's long-term public borrowing requirements of \$3,741 million. This amount includes the refinancing of \$3,498 million of long-term debt maturities. The 2004–05 borrowing requirements declined from \$4,203 million estimated at the time of the 2004 Ontario Budget, largely due to lower debt maturities attributable to bonds with embedded options that were not exercised resulting in the extension of maturities into future years. As part of prudent forecasting, it was assumed that this debt would mature in 2004–05.

Long-term public borrowing was completed primarily in the Canadian domestic market. The Province also was successful in issuing four Euro Medium Term Notes, for a Canadian dollar equivalent of \$837 million, and one U.S. dollar Global bond Issue, for a Canadian dollar equivalent \$620 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 2004–05, the cost of the borrowing program was \$26.2 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.

The OEFC's foreign exchange and floating rate exposures remained within the OEFC's policy limits in 2004–05.

- Floating interest rate exposure was 8.5 percent of total debt as at March 31, 2005, within the limit of 20 percent.
- Foreign exchange exposure was 0.1 percent of total debt as at March 31, 2005, down from 14.5 percent on April 1, 1999, and within the limit of five percent.

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 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 2004–05, the OEFC negotiated revisions to four NUG contracts to facilitate their integration into the competitive electricity market and reduce above-market costs. This brings the total revised NUG contracts to 27 contracts. In addition, the OEFC achieved \$1.4 million in cost savings through the implementation of contractual curtailments, auxiliary services revenue and incremental power transactions, whereby the OEFC allows the NUG to exceed its contracted production level in exchange for a share of the profit on that extra production.

Under the contract management agreement, the OEFC provided termination notice to the NUG contract manager to reduce costs and improve efficiencies in the NUG settlements section. The OEFC developed and implemented the necessary information systems to carry out the functions previously performed by an external contract manager.

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 NUG contracts is valued at \$3,785 million as at March 31, 2005. Details are set out in Note 9 to the Financial Statements.

Under the *Electricity Restructuring Act, 2004*, the OEFC began receiving actual contract prices for power from ratepayers effective January 1, 2005, and will no longer incur losses on these power purchase contracts.

Outlook for 2005-06

- The OFA will complete the OEFC's 2005–06 long-term public borrowing requirements of \$2.5 billion in a sound and prudent manner and manage its debt portfolio within exposure policy limits reviewed and established by the Board of Directors. The OEFC will proceed with payments to discharge the 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 minimize costs to ratepayers by utilizing arrangements such as incremental power transactions. The OEFC will provide effective administration of the NUG contracts and also will continue to negotiate revisions to the remaining NUG contracts to ensure that these are consistent with the electricity sector as it develops.
- The OEFC will continue to validate and ensure the accuracy of claims from Local Distribution Companies and electricity retailers from the ECPPF for claims up to December 31, 2004, and transfer the ECPPF surplus to support the interim pricing plan for the OPA and pay out the remaining surplus to consumers.
- Where required, the OEFC will facilitate the cashflow requirements of the successor corporations of Ontario Hydro.
- The OEFC will continue to support the implementation of the government's electricity policy decisions, such as providing interim funding to the Ontario Power Authority and participation in a joint proposal to the Government of Newfoundland and Labrador to develop hydroelectric generation facilities on the Lower Churchill River in Labrador.

Additional Information

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

A full set of 2003-04 OEFC financial statements can be found in the 2004 OEFC Annual Report at www.oefc.on.ca

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

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