ONTARIO ELECTRICITY FINANCIAL CORPORATION

Audited Financial Statements

For the year ended March 31, 2023

Financial Statements

Responsibility for Financial Reporting

The accompanying financial statements of the OEFC have been prepared in accordance with Canadian public sector accounting standards. 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 August 11, 2023.

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. An internal audit function 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 General's responsibility is to express an opinion on whether the financial statements are fairly presented 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

Muneeb Chaudhary
Chief Financial Officer

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Ontario Electricity Financial Corporation

Opinion

I have audited the financial statements of the Ontario Electricity Financial Corporation (OEFC), which comprise the statement of financial position as at March 31, 2023, and the statements of operations and change in accumulated surplus, remeasurement gains and losses and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OEFC as at March 31, 2023, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the OEFC in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and my auditor's report thereon, in OEFC's 2023 Annual Report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance 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. In preparing the financial statements, management is responsible for assessing the OEFC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless OEFC either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the OEFC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 OEFC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the OEFC's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the OEFC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario
August 11, 2023

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

ONTARIO ELECTRICITY FINANCIAL CORPORATION
Statement of Financial Position

As at March 31, 2023 ($ millions)

	2023	2022
FINANCIAL ASSETS		
Cash	$ -	$ 19
Investments (Note 4)	762	1,579
Accounts receivable (Note 5)	277	233
Interest receivable	9	12
Derivatives (Note 10)	7	-
Due from Province of Ontario (Note 6)	4,367	4,162
Notes and loans receivable (Note 7)	9,480	9,594
	$ 14,902	$ 15,599
LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	$ 7	$ 8
Derivatives (Note 10)	53	-
Interest payable	148	254
Debt (Note 9)	13,572	14,826
	13,780	15,088
NET FINANCIAL ASSETS	1,122	511
NON-FINANCIAL ASSETS		
Deferred costs on hedging	-	22
	1,122	533
Accumulated surplus from operations	1,168	533
Accumulated remeasurement losses	(46)	-
ACCUMULATED SURPLUS (Notes 1, 2, 3)	$ 1,122	$ 533
Contingencies (Note 12)		

Approved on behalf of the Board:

Greg Orencsak
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 Accumulated Surplus

For the year ended March 31, 2023 ($ millions)

	2023	2022
REVENUE		
Payments-in-lieu of tax and provincial corporate taxes (Notes 1)	$ 709	$ 695
Interest (Note 7)	511	511
Power supply contract recoveries (Note 11)	48	67
Net reduction of power purchase contracts (Note 11)	-	5
Electricity sector dedicated income (Notes 6)	200	840
Other	8	15
	$ 1,476	$ 2,133
EXPENSE		
Interest on debt	$ 692	$ 830
Power supply contract costs (Note 11)	48	67
Debt guarantee fee	75	83
Operating	6	6
	821	986
Excess of revenue over expense	655	1,147
Accumulated surplus (Unfunded liability), beginning of year as previously reported	533	(614)
Opening adjustment, adoption of PS 3450 (Note 2)	(20)	-
Accumulated surplus (Unfunded liability), beginning of year restated	513	(614)
Accumulated surplus from operations, end of year	$ 1,168	$ 533

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION
Statement of Remeasurement Gains and Losses

For the year ended March 31, 2023 ($ millions)

	2023	2022
Accumulated remeasurement gains and losses, beginning of year	$ -	-
Adjustment on adoption of PS 3450 Financial Instruments (Note 2)	(86)	-
Unrealized gains attributable to derivatives	40	-
Realized gains (losses) reclassified to the statement of operations for derivatives	-	-
Net remeasurement gains for the year	40	-
Accumulated remeasurement losses, end of year	$ (46)	-

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION
Statement of Cash Flows

For the year ended March 31, 2023 ($ millions)

	2023	**2022**
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess of revenue over expense	$ 655	$ 1,147
Adjustments for:		
Increase in accounts receivable (Note 5)	(44)	(215)
Decrease in interest receivable	3	20
Increase in due from Province of Ontario (Note 6)	(205)	(843)
Decrease in accounts payable and accrued liabilities (Note 8)	(1)	(11)
Decrease in interest payable (net of reclassification to debt)	(27)	(68)
Zero coupon debt interest	81	-
Real return bond CPI adjustment	56	46
Net reduction of power purchase contracts (Note 11)	-	(5)
Decrease in deferred costs on hedging	-	2
Other items	2	1
Cash provided from operations	$ 520	$ 74
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from investments	817	1,563
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt retired	$(1,477)	$(1,804)
Short-term debt issued, net	6	1
Note receivable repayment, net	115	185
Cash required by financing activities	(1,356)	(1,618)
Net (decrease) increase in cash	(19)	19
Cash, beginning of year	19	–
Cash, end of year	$ -	$ 19

See accompanying notes to financial statements.

Notes to Financial Statements

1) Nature of Operations

(a) Overview

Ontario Electricity Financial Corporation (OEFC or the Corporation) is the legal continuation of Ontario Hydro and one of five entities established by the *Electricity Act, 1998* (the Act) as part of the 1999 restructuring of Ontario Hydro. The Corporation is a Crown agency, and is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

OEFC is a Crown agency; its mandate includes:

- managing its debt and administering the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities;
- managing the former Ontario Hydro's contracts with non-utility generator (NUGs);
- 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.

The other Ontario Hydro successor entities are:

- Ontario Power Generation Inc. (OPG);
- Hydro One Inc. (now a subsidiary of Hydro One Limited; or Hydro One);
- Independent Electricity System Operator (IESO); and
- Electrical Safety Authority.

(b) Debt and Liability Management

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 OEFC's 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 via:

- 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, eliminated as of April 1, 2018; and
- 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 as the Electricity Sector Dedicated Income (ESDI). In 2012, Ontario Regulation 89/12 prescribed the calculation of the residual stranded debt on an annual basis which included this ESDI allocation. In 2016, that regulation was revoked. Beginning in 2019-20, the Province changed the ESDI policy commitment to allocate annually, at its discretion, OPG's net income in excess of the interest cost of the Province's investment, to OEFC.

As of April 1, 1999, the present value of the future 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 to be dedicated to OEFC 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.

Pursuant to the Act and consistent with the principles of electricity restructuring, there is a long-term plan to defease the unfunded liability from funds from the electricity sector. Since March 31, 2022, OEFC's Statement of Financial Position has been in an accumulated surplus position.

2) Summary of Significant Accounting Policies

(a) Basis of Accounting

As OEFC is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board.

(b) Net Financial Assets Presentation and Comparison with Budget

A statement of changes in net financial assets is not presented since this information is readily apparent. A comparison between budget and actual has been excluded due to the unique nature of OEFC's revenues and expenses over which OEFC has minimal control. OEFC is a passive recipient of revenues that it receives on the basis of either legislation (e.g. Gross Revenue Charge, PILs and provincial corporate taxes, and Power supply contract recoveries) or allocation by the Province at its discretion (ESDI).

(c) 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 payments-in-lieu of tax revenue, payments-in-lieu of tax receivable and tax refundable, ESDI, fair value of derivative contracts and allowance for doubtful accounts. Estimates are based on the best information available at the time of preparation of the financial statements.

(d) Revenue Recognition

The main sources of revenue are:

- **Payments-in-lieu of taxes (PILs) and provincial corporate taxes** are recognized in the period that they are earned from OPG, Hydro One and municipal electric utilities. Also included under PILs are Gross Revenue Charge amounts and amounts allocated by the Province to OEFC equal to the provincial corporate income taxes payable by Hydro One Inc.
- **Interest income** is recognized in the period it is earned on notes receivable from the Province, OPG, IESO, and NUGs.
- **Power supply contract recoveries** are recognized as recovered at the same amount as the costs incurred on the power supply contracts.
- **Electricity sector dedicated income (ESDI)** is recognized in the amount as allocated at the discretion of the Province of Ontario, using the cumulative net income of OPG in excess of the Province’s interest costs of its investment.

(e) Financial Instruments

Initial recognition and measurement
Financial instruments are classified at initial recognition as either (i) cost or amortized cost or (ii) fair value. In these financial statements, all financial instruments, other than derivatives are classified at cost or amortized cost. Derivatives are presented on a trade netted basis as permitted by our agreement with our counterparty on the Statement of Financial Position as either financial assets or liabilities depending if the net balance is either in a receivable or liability position. Fair value is the amount of the consideration that would be agreed on in an arm's length transaction between knowledgeable willing parties, who are under no compulsion to act.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

Financial Instruments at fair value
Financial instruments at fair value are remeasured at their fair value at the end of each reporting period. Any unrealized gains and losses are recognized in the Statement of Remeasurement Gains and Losses and are subsequently reclassified to the Statement of Operations and Change in Accumulated Surplus upon disposal or settlement.

The following hierarchy is used for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: valuation techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The fair value of financial instruments not traded in an active market is determined by appropriate valuation techniques, including forward pricing and swap models, using present value calculations. The models incorporate various inputs including forward interest rate curves.

Financial Instruments at cost or amortized cost
For financial assets and financial liabilities measured at amortized cost, interest is to be recorded using the effective interest rate (EIR) method. The EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period.

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

- Cash and investments are recorded at cost. These items are subject to an insignificant risk of change in value so carrying value approximates fair value.

- Accounts receivable, Interest receivable, Interest payable and Due from Province of Ontario are recorded at cost. Notes and loans receivable are recorded at amortized cost. Valuation allowances are made to reflect notes and loans receivable at the lower of amortized cost and net realizable value, when collectability and risk of loss exists. Change in valuation is recognized in the Statement of Operations and Change in Accumulated Surplus.

- Accounts payable and accrued liabilities are recorded at cost and relate to normal business transactions with related parties and third-party suppliers and are subject to standard commercial terms.

- Other foreign currency assets and liabilities are translated to Canadian dollars at period-end rates of exchange.

- Debt is composed of short, medium and long-term bonds, notes and debentures and is recorded at amortized cost. Debt denominated in foreign currencies is recorded at the Canadian dollar equivalent using the rates of exchange on the date of reporting. Any exchange gains or losses are reported in the Statement of Remeasurement Gains and Losses.

- 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 using the effective interest rate method. 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 fair value on the date on which derivatives are entered and are subsequently re-measured at fair value at each reporting date.

(f) Debt guarantee fee

A fee equal to 0.5 per cent is payable to the Province annually based on the principal amount of notes, debentures and other indebtedness of the Corporation owed to the Province or guaranteed by the Province excluding adjustments to debt related to unrealized foreign exchange gains and unamortized debt issue costs.

(g) Deferred Costs on Hedging

Prior to the adoption of financial instrument accounting standards on April 1, 2022, fees and other costs from debt related derivatives and gains and losses on sale of bonds used to hedge interest rates were deferred and amortized to operations over the life of the underlying debt. Unamortized amounts were classified under non-financial assets. As of April 1, 2022 any fees or costs related to the hedging of debt are recorded in the Statement of Operations and Change in Accumulated Surplus.

(h) Power Purchase Contracts

The liability for power purchase contracts was originally calculated by a net present value discounting of the estimated losses over the life of the contracts. Pursuant to legislation, since 2005 OEFC has received actual contract prices for power from electricity consumers, and no longer incurs losses on these power purchase contracts. At that time, the decision was made to amortize the liability to revenue over the period when most existing contracts expire with the liability fully eliminated in fiscal 2021–22.

(i) Changes in Accounting Standards

PS 3450 – Financial Instruments, PS 2601 – Foreign Currency Translation and PS 1201 – Financial Statement Presentation became effective April 1, 2022 for the fiscal year 2022-23.

PSAB introduced new standards on Financial Instruments and Foreign Currency Translation that categorize items to be accounted for at either fair value, cost or amortized cost. Fair value measurement applies to derivatives and portfolio investments in equity instruments that are quoted in an active market. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized (for example, through disposition), any unrealized gains and losses arising due to changes in fair value or foreign currency (remeasurements) will be reported in the Statement of Remeasurement Gains and Losses introduced in the new standard on Financial Statement Presentation.

In accordance with the transitional provisions of PS 3450, OEFC recognized a derivative asset of $5 million and a derivative liability of $91 million related to the fair value of interest rate swap derivatives at April 1, 2022 with a corresponding unrealized loss of $86 million on the statement of remeasurement gains (losses).

OEFC implemented the new standards effective April 1, 2022. An adjustment reducing accumulated surplus, beginning of year, of $20 million was recorded on adoption of these standards. The standards were adopted prospectively and comparative periods were not restated.

As at April 1, 2022 ($ millions)	
Accumulated surplus, beginning of year previously reported	$533
Deferred issue and hedging costs	(25)
Deferred foreign exchange gain on matured derivative	10
Valuation adjustment related to zero coupon bonds	(5)
Accumulated surplus, beginning of year restated	**$513**

3) Economic Dependence

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.

4) Investments

Investments primarily consist of term deposits held with the Province. At March 31, 2023, the interest rate on these investments was 4.50% (2022 – 0.24% to 0.61%) with maturities from April 3, 2023 to April 13, 2023.

5) Accounts Receivable

As at March 31 ($ millions)	**2023**	**2022**
Power supply contract recoveries	$ 4	$ 6
Payments-in-lieu of taxes receivable	265	212
Other receivables	8	15
Total	**$ 277**	**$ 233**

Payments-in-lieu of taxes receivables includes an amount of $263 million (2022 - $210 million) due from Ontario Power Generation.

6) Due from Province of Ontario

As at March 31 ($ millions)	**2023**	**2022**
Electricity sector dedicated income	$ 4,332	$ 4,132
Amount equal to Hydro One Inc. provincial income tax	35	30
Total	**$ 4,367**	**$ 4,162**

For the year ended March 31, 2023, the Province at its discretion allocated to OEFC ESDI of $200 million (2022 – $840 million) and was included in ESDI on the Statement of Operations and Accumulated Surplus. During fiscal 2022-23, the Province did not make any payments to reduce the balance due (2022 – $nil).

In addition, section 91.2 of the Act 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 2022–23, OEFC recognized $35 million under section 91.2 of the Act (2022 – $30 million) and was included in PILs and provincial corporate taxes on the Statement of Operations and Accumulated Surplus. During fiscal 2022-23, the Province made payments of $30 million (2022 - $27 million) to reduce the balance due.

7) Notes and Loans Receivable

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

($ millions)					
	Maturity Date	**Interest Rate**	**Interest Payable**	**March 31, 2023**	**March 31, 2022**
Province of Ontario	2039–2041	5.85	Monthly	$ 6,804	$ 6,804
OPG	2023–2048	1.75 to 5.40	Semi-Annually	2,520	2,650
IESO	2023	Variable/1.13	Monthly/ Semi-Annually	135	120
				9,459	9,574
Add: Loans receivable from NUGs				27	26
Allowance for doubtful accounts				(6)	(6)
Net loans receivable from NUGs				21	20
Total				**$ 9,480**	**$ 9,594**

OEFC's interest income for 2023 of $511 million (2022 – $511 million) included interest from notes receivable of $497 million (2022 – $502 million) and $14 million from other sources including temporary investments (2022 – $9 million).

The Province

As noted above, in 1999, the Province received equity of $8.9 billion in OPG and Hydro One in exchange for assuming debt payable to OEFC. During fiscal 2022–23, the Province did not make any payments to reduce the principal notes outstanding (2022 – $nil).

OPG

OEFC provides OPG financing on commercial terms and conditions.

In November 2021, OEFC agreed to provide OPG a $750 million credit facility for the period January 1, 2022 to December 31, 2026. At March 31, 2023, no balance had been drawn on the credit facility.

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

Fiscal Year	Amount
2023–24	420
2026–27	50
2039–40	100
2040–41	150
2041–42	350
2046–47	250
2047–48	1,200
Total	**$ 2,520**

IESO

At March 31, 2023, OEFC held a note receivable from IESO of $120 million maturing on June 30, 2023. The IESO repaid the note on maturity. The loan facility also expired on June 30, 2023 and was not renewed as the IESO entered into a new loan facility with the Ontario Financing Authority.

At March 31, 2023, IESO had drawn $15 million on a $160 million credit facility maturing on June 30, 2023. IESO repaid all balances on maturity. The credit facility was not renewed as the IESO entered into a new credit facility with the Ontario Financing Authority.

NUGs

Loans receivable from NUGs at March 31, 2023 totalled $21 million (2022 – $20 million), net of an allowance for doubtful accounts of $6 million (2022 – $6 million).

8) Accounts Payable and Accrued Liabilities

As at March 31 ($ millions)	2023	2022
Power supply contract costs	$ 4	$ 6
Other liabilities	3	2
Total	**$ 7**	**$ 8**

9) Debt

Debt at March 31, 2023, is set out below by maturity. All debt issues were denominated in Canadian dollars.

($ millions)	2023 Total	2022 Total
Maturing in:		
1 year	$ 3,968	$ 2,050
2 years	1,623	3,227
3 years	2,116	1,550
4 years	1,060	2,050
5 years	166	1,010
1–5 years	8,933	9,887
6–10 years	745	1,108
11–15 years	1,405	949
16–20 years	382	782
21–25 years	875	875
26–50 years	1,303	1,302
	$ 13,643	**$ 14,903**
Debt issue costs	**(71)**	**(77)**
Total	**$ 13,572**	**$ 14,826**

The effective rate of interest on the debt portfolio was 4.91 per cent after considering the effect of derivative instruments used to manage interest rate risk (2022 – 5.03 per cent). The longest term to maturity is to December 2, 2050. There was no foreign currency denominated debt issued at March 31, 2023 (2022 – $nil). Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

			March 31, 2023			**March 31, 2022**
($ millions)	**Held by the Province**	**Guaranteed by the Province**	**Total**	**Held by the Province**	**Guaranteed by the Province**	**Total**
Short-term debt	$ 660	–	$ 660	$ 654	–	$ 654
Current portion of long-term debt	3,227	81	3,308	517	879	1,396
Long-term debt	6,740	2,864	9,604	9,914	2,862	12,776
Total	**$ 10,627**	**$ 2,945**	**$ 13,572**	**$ 11,085**	**$ 3,741**	**$ 14,826**

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, 2023 was $13.9 billion (2022 – $16.1 billion). This is higher than the book value of $13.6 billion (2022 – $14.8 billion) because current interest rates are generally lower than the interest rates at which the debt was issued. The fair value of debt does not reflect the effect of related derivative contracts.

10) 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.

Derivatives are recorded at fair value as at March 31, 2023 resulting in derivative assets of $7 million and derivative liabilities of $53 million on the Statement of Financial Position with net unrealized losses of $46 million on the Statement of Remeasurement Gains and Losses (April 1, 2022 – derivative assets of $5 million and derivative liabilities of $91 million with net unrealized losses of $86 million on the Statement of Remeasurement Gains and Losses). Fair values were determined using level 2 basis of valuation as defined in Note 2.

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 3.0 per cent of total debt. At March 31, 2023, OEFC did not hold any debt issued in foreign currencies (2022 – $nil). As a result, the actual unhedged level was 0.0 per cent of total debt (2022 – 0.0 per cent).

Interest Rate Resetting Risk

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, 2023, net interest rate resetting risk as a percentage of total debt was 22.1 per cent (2022 – 4.2 per cent). To minimize interest rate risk, loans to OPG continue to be funded by borrowings on similar terms to maturity, regardless of OEFC's liquid reserve position. The net interest rate resetting risk is negative when cash and investment balances exceed the amount of debt over the next twelve months that is exposed to changes in interest rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, OEFC's interest on debt for the year ended March 31, 2023 would increase/decrease by $3 million (2022 - $2 million) and have a $25 million impact to accumulated remeasurement gains (losses).

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 outstanding at March 31, 2023 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, 2023 ($ millions)

Maturity in years						6–10	Over 10		
Fiscal year	2024	2025	2026	2027	2028	Years	Years	**Total**	March 2022
Interest rate swaps	–	–	–	423	177	–	53	**653**	653
Total	**$ –**	**$ –**	**$ –**	**$ 423**	**$ 177**	**$ –**	**$ 53**	**$ 653**	**$ 653**

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, 2023.

Credit Risk Exposure ($ millions)	**March 31, 2023**	**March 31, 2022**
Gross credit risk exposure	$ 7	$ 5
Less: Netting	(7)	(5)
Net credit risk exposure	**$ 0**	**$ 0**

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. As at March 31, 2023, OEFC holds derivative positions exclusively with the Province of Ontario. OEFC has entered into contractual agreements that provide for termination netting and, if applicable, payment netting with the Province.

11) Power Supply Contracts

Power purchase contracts and related loan agreements were entered into by the former Ontario Hydro. As the legal continuation of 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 basis when Ontario Hydro was continued as OEFC on April 1, 1999.

Pursuant to legislation, since 2005 OEFC has received actual contract prices for power from ratepayers, and no longer incurs losses on these contracts going forward. At that time, the decision was made to amortize the liability to revenue over the period when most contracts expire. The liability was fully eliminated in fiscal 2021–22.

During the year ended March 31, 2023, OEFC's costs under power supply contracts totalled $48 million (2022 – $67 million). All amounts are recoverable from the Global Adjustment via the IESO settlements process.

12) Contingencies

OEFC may from time to time be involved in 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. 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.

13) Related Party Transactions

The Province of Ontario is a related party as it is the controlling entity of OEFC. The Ontario Financing Authority provides day-to-day management services to OEFC on a cost-recovery basis of $4.1 million (2022 – $4.1 million). The Ministry of Finance provides revenue collection and reporting services to OEFC on a cost-recovery basis of $1.6 million (2022 – $1.9 million).

In addition, related party transactions pertain to:

a) Province of Ontario - Amounts payable by the Province (Due from Province) relating to ESDI and under section 91.2 of the Act is disclosed in Note 6. Note receivable from the Province is disclosed in Note 7. Debt held and guaranteed by the Province is disclosed in Note 9;
b) Ontario Power Generation Inc. – Payments-in-lieu of tax from OPG is included in PILs and corporate income tax on the Statement of Operations and Accumulated Surplus. Amounts due from OPG relating to PILs is disclosed in Notes 5. Loan receivable from OPG is disclosed in note 7;
c) Hydro One Inc. payments-in-lieu of property tax is included in PILs and corporate income on the Statement of Operations and Change in Accumulated Surplus; and
d) Independent Electricity System Operator loan receivable and is disclosed in Note 7.