Ontario Electricity Financial Corporation

2002 Annual Report

Ontario
Ontario Electricity Financial Corporation

Overview: Electricity Industry Financial Structure

The *Electricity Act, 1998*, set out key elements of the Government of Ontario's plan to restructure Ontario's electricity industry. The plan called for the restructuring of Ontario Hydro and the elimination of its long-standing monopoly on electricity production with the introduction of competition to Ontario's electricity sector.

A key component of this initiative was to introduce a new financial structure for the electricity sector. This structure was announced on April 1, 1999. At that time, Ontario Hydro was continued as OEFC and its assets and liabilities were distributed among the five successor corporations and their subsidiaries:

- **Hydro One Inc. (Hydro One)**
- **Ontario Power Generation Inc. (OPG)**
- **Independent Electricity Market Operator (IMO)**
- **Electrical Safety Authority (ESA)**
- **Ontario Electricity Financial Corporation (OEFC)**

The two commercial companies, Hydro One and OPG, together with their subsidiaries, received the majority of Ontario Hydro's assets and in return issued $17.1 billion of debt to the Ontario Electricity Financial Corporation (OEFC), the legal continuation of Ontario Hydro.

To ensure fairness, reliability and safety in the new electricity market, the IMO and the ESA were also established. The IMO issued $0.1 billion of debt to OEFC in return for Ontario Hydro's central market operator and regulatory assets.

To achieve commercially viable capital structures, Hydro One and OPG entered into debt-for-equity swaps with the Province of Ontario. In exchange for $3.8 billion of equity in Hydro One and $5.1 billion of equity in OPG, the Province assumed $8.9 billion of the debt issued to OEFC by the successor corporations. The Province is the sole shareholder of Hydro One and OPG.

Highlights in 2001-02

The Ontario Electricity Financial Corporation (OEFC) accomplished its key objectives for 2001-02, namely:

Achieved cost-effective borrowing and debt management.

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Continued the necessary revisions to the non-utility generator (NUG) contracts to prepare for a competitive electricity market.

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Initiated the development of necessary infrastructure to manage the NUG contracts and related exposures in a competitive market, in a cost-effective and prudent manner.

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Concluded an agreement on the division and transfer of the assets and liabilities of the OEFC pension plan to the pension plans of the other successor corporations. Approval for the transfer of the assets was obtained from the Superintendent of Financial Services, with the transfer occurring on June 29, 2001.

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Message from the Chair

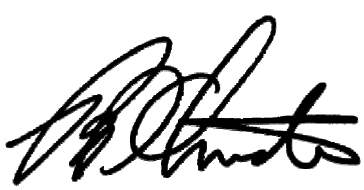
I am pleased to present the 2002 Annual Report of the Ontario Electricity Financial Corporation (OEFC). The report describes OEFC's objectives and responsibilities, operational highlights and financial results for the year ended March 31, 2002.

As outlined in the *Electricity Act, 1998,* OEFC's primary objective is to ensure that the outstanding debt and derivatives portfolios and certain other liabilities of the former Ontario Hydro are managed efficiently and prudently and are ultimately retired.

For the year ended March 31, 2002, revenues totalled $3,544 million, while expenses totalled $3,613 million. To meet its 2001-02 borrowing requirements of $3.4 billion, the Province, on behalf of OEFC, completed a $1.8 billion long-term borrowing program, which included pre-borrowing of $0.3 billion from 2000-01 and fixing interest rates on $0.4 billion of short-term debt, for total cash proceeds of $1.1 billion. The remaining borrowing requirement of $1.6 billion was funded using short-term debt, excluding net maturities of $0.2 billion in fixing interest rates on short-term debt. Total debt outstanding as of March 31, 2002 was $29.4 billion, down $1.2 billion from the previous fiscal year.

During the year, OEFC achieved cost-effective borrowing and debt management, managed and initiated necessary changes to the non-utility generator (NUG) contracts in preparation for a competitive electricity market, and transferred the assets and liabilities of the OEFC pension plan to the pension plans of the successor companies on June 29, 2001.

On May 1, 2002, the competitive electricity market opened in Ontario. OEFC will monitor how changes in the electricity industry will affect the operating results, unfunded liability and borrowing program of the corporation in the 2002-03 fiscal year.



Bob Christie

Chair

Objectives and Responsibilities

The 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.

While OEFC does not employ staff, it retains the Ontario Financing Authority (OFA) and the Ministry of Finance to carry out its daily operations. The OFA is the agency of the Province of Ontario responsible for provincial borrowing and debt management activities. The OFA manages OEFC's debt and derivatives portfolios, and provides cash management, accounting and other financial services and support to the corporation.

OEFC's Board of Directors is responsible for supervising OEFC's operations, which are as follows:

- Manage the outstanding debt and derivatives portfolios and other liabilities of the former Ontario Hydro;
- Administer assets, liabilities, rights and obligations of the Corporation that have not been transferred to other Ontario Hydro successor corporations, and dispose of these as it deems appropriate or as directed by the Minister of Finance; and
- Perform any additional functions as required by the Lieutenant Governor in Council.

OEFC's activities for 2002-03 will be focused on the following corporate objectives:

- Provide borrowing, risk management, cash management, banking and accounting services as required to manage and retire the outstanding debt and derivatives portfolios of the former Ontario Hydro; and
- Negotiate revisions to the NUG contracts to ensure that the contracts are consistent with the requirements of the open market. Manage the NUG contracts and related exposures within a competitive electricity market in a cost-effective and prudent manner.

Management's Discussion and Analysis

OEFC accomplished its key objectives for 2001-02, namely:

- Achieved cost-effective borrowing and debt management;
- Continued the necessary changes to the non-utility generator (NUG) contracts to prepare for a competitive electricity market;
- Initiated the development of necessary infrastructure to manage the NUG contracts and related exposures in a competitive market in a cost-effective and prudent manner; and
- Concluded an agreement on the division and transfer of the assets and liabilities of the OEFC pension plan to the pension plans of the successor corporations. Approval for the transfer of the assets was obtained from the Superintendent of Financial Services, with the transfer occurring on June 29, 2001.

Financial Highlights

For the year ended March 31, 2002, revenues totalled $3,544 million, while expenses totalled $3,613 million, resulting in a deficiency of revenue over expense of $69 million, a reduction of $87 million from the prior year's excess of revenue over expense of $18 million.

This decrease reflects lower payments-in-lieu of taxes, primarily due to the decline in OPG's financial results for the first quarter of 2002, which included non-recurring costs for restructuring of $210 million and recognition of unrealized losses on transition rate options of $210 million. OPG's losses resulted in no electricity sector dedicated income transfer from the Province. This reduction was partially offset by an increase in the revenue pool residual as a result of the increase in wholesale electricity rates, effective June 1, 2001.

Borrowing and Debt Management

As OEFC does not have its own credit rating, the Province, through the OFA, borrows on OEFC's behalf. In turn, OEFC issues debt to the Province. OEFC's borrowing requirements for 2001-02 were $3.4 billion, excluding rollovers of maturing short-term debt. OEFC completed $1.8 billion of the borrowing program in long-term funding, all in the Canadian dollar domestic market, including pre-borrowing in 2000-01 of $0.3 billion, and by using financial market transactions to fix interest rates on $0.4 billion of short-term debt. The remaining borrowing requirement was funded by issuing $1.6 billion in short-term debt. Total short-term debt outstanding increased by only $1.4 billion through the fiscal year, as the $0.4 billion in new fixing of interest rates on short-term debt was offset by $0.6 billion in maturities of transactions of this nature.

As of March 31, 2002, total debt outstanding was $29.4 billion, a decrease of $1.2 billion from the previous fiscal year. Total debt outstanding is projected to decrease to $28.8 billion at March 31, 2003. Maturing debt and planned redemptions are $2.7 billion in 2002-03.

Debt Repayment Plan

Pursuant to the *Electricity Act, 1998* and consistent with the principles of electricity sector restructuring, the government has established a long-term plan to retire debt from within the electricity sector. The $38.1 billion in obligations (as of April 1, 1999) is being repaid from the following sources:

- Notes receivable from the Province, OPG, Hydro One and the IMO;
- Payments-in-lieu (PILs) of corporate income, capital and property taxes, made by OPG, Hydro One and municipal electric utilities (MEUs);
- A Debt Retirement Charge (DRC), paid by electricity consumers commencing on May 1, 2002, the day the electricity market opened to competition. The charge will end once the residual stranded debt is retired and will be administered by the Ministry of Finance on behalf of OEFC. Prior to May 1, 2002, OEFC received the residual of the revenue pool. This pool, managed by OPG, collected revenues from electricity consumers and allocated revenues to OPG, Hydro One and IMO, with the residual going to OEFC; and
- Electricity Sector Dedicated Income. Consistent with the government's commitment to keep electricity income in the electricity sector, the combined net incomes of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries are dedicated to the retirement of OEFC's debt.

Stranded Debt and Residual Stranded Debt

At April 1, 1999, OEFC assumed approximately $38.1 billion in total liabilities from the former Ontario Hydro. OEFC received a total of $17.2 billion in notes owing from the Province, OPG, Hydro One and the IMO. The difference of approximately $20.9 billion represents "stranded debt" which is defined under the *Electricity Act, 1998* as the amount of debt and other liabilities of OEFC that cannot reasonably be serviced and retired in a competitive electricity market.

The *Electricity Act, 1998* requires that payments in lieu of taxes must be paid by the successor entities and municipal electric utilities (MEUs) to OEFC to service stranded debt. As of April 1, 1999, the present value of these revenue streams was estimated at $13.1 billion, resulting in an estimated $7.8 billion of residual stranded debt. The *Electricity Act, 1998* also provides for a Debt Retirement Charge (DRC) to be paid to OEFC to retire residual stranded debt

The April 1, 1999 Unfunded Liability (the stranded debt from electricity sector restructuring to be recovered from ratepayers) of $19.4 billion of OEFC was composed of the liabilities of $38.1 billion (described above) less notes receivable of $17.2 billion, less loans receivable and other assets of $1.5 billion.

Unfunded Liability as of March 31, 2002 was $20.1 billion.

Risk Management

OEFC's foreign exchange and floating interest rate exposures remained within policy limits in 2001-02.

Foreign Exchange Exposure: The target for unhedged foreign currency exposure by the end of fiscal 2002-03 is five per cent of outstanding debt, although the policy limit is 20 per cent. When the OFA became responsible for the management of OEFC's debt portfolio, total debt exposed to fluctuations in foreign currencies was 14.5 per cent. The OFA reduced OEFC's exposure to 7.5 per cent as of March 31, 2002. The OFA will continue to reduce the level of exposure towards the five per cent target in a prudent manner.

Floating Interest Rate Exposure: The limit on OEFC's floating interest rate exposure (net of liquid reserves) is 20 per cent of outstanding debt. Actual floating interest rate exposure was 9.8 per cent as of March 31, 2002.

Debt Maturity Profile: When issuing new debt, the OFA, on behalf of OEFC, will aim for a smooth debt maturity profile to diversify the interest rate risk for the refinancing of maturing and floating rate debt.

OEFC has a number of policies in place to address the financial risks to which it is exposed through its borrowing and debt management activities. A description of OEFC's risk management policies can be found in the Corporate Policies section.

OEFC has also developed the NUG Market Risk Policy and Credit and Related Legal Risks Policy to address risks related to the sale of electricity from NUG contracts. NUG contracts involve risk in both financial and commodity markets.

OEFC Pension Plan

The Ontario Electricity Pension Services Corporation (OEPSC) was established as a subsidiary of OEFC to act as OEFC's agent in the administration and day-to-day operations of the OEFC Pension Plan until the assets and liabilities could be transferred to the pension plans of the other Ontario Hydro successor corporations.

The *Electricity Act, 1998* required OEFC to enter into an agreement with the four other successor corporations providing for the division and transfer of the assets and liabilities of the OEFC Pension Plan to the pension plans of the successor corporations. The five companies signed an asset transfer agreement as of March 29, 2001 and submitted the agreement to the Superintendent of Financial Services for approval as required by the *Pension Benefits Act, 1990*. The Superintendent approved the asset transfer agreement on June 6, 2001.

With the exception of certain records and assets of nominal value, all pension fund assets were transferred to the pension plans of successor corporations on June 29, 2001. The staff of OEPSC was transferred to OPG and Hydro One Networks Inc. by transfer order under the *Electricity Act, 1998* on June 29, 2001. As OEPSC's functions have been completed, OEFC is in the process of winding up the company.

2001-02 Accomplishments

During 2001-02, OEFC completed the following initiatives:

- Continued to negotiate revisions to the NUG contracts to ensure that the contracts are consistent with the requirements of the transition to an open market.
- Facilitated the transition from Hydro One to UBS Warburg Energy (Canada) Ltd. (UBS) as settlement services manager of the power purchase agreements (PPAs) with the NUGs.
- Worked with UBS to establish systems and procedures for the administration of the PPAs in an open electricity market.
- In anticipation of OEFC's participation in Ontario's electricity market, the Board of Directors approved a policy framework addressing risks associated with the management of the NUG contracts.

Management of Power Purchase Agreements

In the late 1980s and early 1990s, the former Ontario Hydro entered into approximately 90 long-term power purchase agreements (PPAs) with non-utility generators (NUGs) located in Ontario. These PPAs, which expire on various dates until the year 2048, represent approximately 1700 MW of generating capacity and approximately $850 million per year in cash outflow. The PPAs account for about 6% to 8% of the generating capacity available to meet Ontario's energy requirements. As the continuation of Ontario Hydro, OEFC is responsible for these contracts.

Currently, the power purchased by OEFC from the NUGs is resold at cost to the revenue pool managed by OPG. As of May 1, 2002, this power began selling in the competitive electricity market. The net present value of the liability of the above-market costs resulting from the difference between the purchase price and the expected selling price over the life of the contracts was estimated at $4.3 billion at April 1, 1999.

In September 2001, OEFC executed an agreement with Enron Canada Corp. (Enron Canada), the successful respondent to the Request for Proposals for the retention of a contract manager. In December 2001, Enron Corp., the U.S. parent of Enron Canada, filed under Chapter 11 of the U.S. Bankruptcy Code.

Enron Corp. was not a party to the OEFC contract management agreement, and Enron Canada did not file for bankruptcy protection in Canada. However, OEFC developed contingency plans to address its exposure to the potential risk that Enron Canada could not fulfil both settlement services and NUG electricity portfolio management and trading obligations.

On January 11, 2002, Enron Corp. announced it had selected UBS Warburg Energy (Canada) Ltd. (UBS) as the successful bidder for Enron's North American wholesale electricity and natural gas trading business. OEFC has subsequently reached an agreement with UBS to assume the responsibilities under the contract management agreement from Enron Canada.

In 2002-03, OEFC will:

- Progress with the development and implementation of the portfolio-monitoring information systems infrastructure required to measure, monitor and assess the performance of the contract manager;
- Negotiate revisions to the NUG contracts to ensure that the contracts are consistent with the requirements of an open market and reduce above-market costs;
- Continue to develop and implement a management information infrastructure commensurate with the requirement to manage the NUG capacity output - including portfolio settlements activities, portfolio hedging activities and associated risk management activities; and
- Upon the advice and guidance of the contract manager, OEFC will execute hedging strategies based on the NUG risk management plan and policies approved by the Board of Directors.

Financial Statements

Responsibility for Financial Reporting

Auditor's Report

Consolidated Balance Sheet

Consolidated Statement of Revenue, Expense and Unfunded Liability

Consolidated Statement of Cash Flows

Notes to Financial Statements

Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Ontario Electricity Financial Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. 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 June 19, 2002.

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. Internal Audit Services of the Ministry of Finance 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 of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and his opinion.

On behalf of Management:

Gadi Mayman

Vice-Chair and Chief Executive Officer (Interim)

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

AUDI ALTERAM PARTEM

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Auditor's Report

To the Ontario Electricity Financial Corporation
and to the Minister of Finance

I have audited the consolidated balance sheet of the Ontario Electricity Financial Corporation as at March 31, 2002 and the consolidated statements of revenue, expense and unfunded liability and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Erik Peters

Toronto, Ontario
June 19, 2002

Erik Peters, FCA
Provincial Auditor

Ontario Electricity Financial Corporation
Consolidated Balance Sheet as at March 31, 2002
($ Millions)

	2002	Restated (Note 10) 2001
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	$ 23	$ 399
Accounts receivable	292	293
Interest receivable	106	112
Current portion of notes receivable (Note 7)	443	640
	864	1,444
Payments-in-lieu of tax receivable (Note 10)	236	203
Due from Province of Ontario (Note 6, 10)	524	646
Notes and loans receivable (Note 7)	14,949	15,279
Deferred debt costs	905	983
	$ 17,478	$ 18,555
LIABILITIES		
Current Liabilities		
Accounts payable	$ 442	$ 326
Interest payable	659	734
Short-term notes payable (Note 8)	3,996	2,570
Current portion of long-term debt (Note 8)	2,548	2,774
	7,645	6,404
Long-term debt (Note 8)	22,820	25,222
Power purchase agreements (Note 9)	4,286	4,286
Nuclear funding liability (Note 9)	2,812	2,659
	37,563	38,571
UNFUNDED LIABILITY (Note 4, 10)	(20,085)	(20,016)
Contingencies and guarantees (Note 12)		
	$ 17,478	$ 18,555

Approved on behalf of the Board of Directors:

Bob Christie
Chair

Michael L. Gourley
Vice-Chair

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Consolidated Statement of Revenue, Expense and Unfunded Liability

for the Year Ended March 31, 2002

($ Millions)

	2002	Restated (Note 10) 2001
REVENUE		
Revenue pool residual	$ 1,296	$ 748
Payments-in-lieu of tax (Note 10)	387	907
Interest	1,028	1,070
Power sales (Note 9)	815	695
Electricity sector dedicated income (Note 6, 10)	-	263
Other	18	27
Total Revenue	3,544	3,710
EXPENSE		
Interest - short-term debt	113	166
- long-term debt	2,223	2,361
Interest on nuclear funding liability	153	144
Amortization of deferred debt costs	140	146
Power purchases (Note 9)	815	695
Debt guarantee fee	153	157
Operating	16	23
Total Expense	3,613	3,692
Deficiency (excess) of revenue over expense	69	(18)
Unfunded Liability, beginning of year (Note 10)	20,016	20,034
Unfunded Liability, end of year	$ 20,085	$ 20,016

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation
Consolidated Statement of Cash Flows
for the Year Ended March 31, 2002
($ Millions)

	2002	Restated (Note 10) 2001
CASH FLOWS USED IN OPERATING ACTIVITIES		
Deficiency (excess) of revenue over expense	$ 69	$ (18)
Adjustments for:		
Amortization of deferred debt costs	(140)	(146)
Interest on nuclear funding liability	(153)	(144)
Electricity sector dedicated income	-	263
Payments-in-lieu of tax receivable	(48)	203
Net change in other balance sheet accounts	(89)	18
Net cash (provided from) required by operations	(361)	176
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issues	1,123	2,924
Less long-term debt retired	3,826	3,008
Long-term debt retired (issued), net	2,703	84
Short-term debt retired (issued), net	(1,426)	876
Repayment of notes receivable	(540)	(1,533)
Net cash required by (provided from) financing activities	737	(573)
Decrease (increase) in cash and cash equivalents	376	(397)
Cash and cash equivalents, beginning of year	399	2
Cash and cash equivalents, end of year	$ 23	$ 399
Interest paid during the year and included in deficiency (excess) of revenue over expense	$ 2,411	$ 2,575

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Notes to Financial Statements

1. Restructuring of the Ontario Electricity Industry

Effective April 1, 1999, pursuant to the *Electricity Act, 1998*, Ontario Hydro was continued as a corporation without share capital under the name Ontario Electricity Financial Corporation (OEFC). It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada. OEFC is a Crown agency created to manage the debt and administer the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities. These other successor entities include:

- Ontario Power Generation Inc. (OPG), an electricity generation company;
- Hydro One Inc. (Hydro One), a regulated electricity transmission and distribution business that operates certain energy service businesses in an unregulated, competitive environment;
- Independent Electricity Market Operator (IMO), the regulated centralized independent system co-ordinator responsible for directing system operations and operating the electricity market; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the respective business units, including assets, liabilities, employees, rights and obligations of the former Ontario Hydro were transferred to OPG and Hydro One (and their subsidiaries) and the IMO for $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. On the same day, the Province exchanged equity of $5,126 million and $3,759 million in OPG and Hydro One respectively for debt payable to OEFC.

OEFC debt, liabilities and associated financing costs will be repaid from interest on notes receivable from the Province and successor entities, and, as provided under the *Energy Competition Act, 1998*, from dedicated electricity revenues in the form of payments-in-lieu (PILs) of corporate income, capital and property taxes made by the successor entities and municipal electric utilities. Any residual debt will be serviced through a Debt Retirement Charge (DRC) to be paid by electricity consumers after open access. Until open access, on May 1, 2002, OEFC continued to be a party to a revenue-allocation agreement among successor entities and was entitled to the forecast residual amount in the revenue pool after allocations to OPG, Hydro One and the IMO are paid.

2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) as recommended in the Handbook of the Canadian Institute of Chartered Accountants.

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 that 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 estimated liability for power purchase agreements and in the calculation of the interest on the nuclear funding liability (see Note 9 for additional details).

Estimates are based on the best information available at the time of preparation of the financial statements and will be updated annually to reflect new information as it becomes available.

Consolidation

These financial statements include the accounts of OEFC's wholly owned subsidiary, Ontario Electricity Pension Services Corporation (see Note 3).

Deferred Debt Costs

Deferred debt costs includes the unamortized amounts related to unrealized foreign exchange gains or losses resulting from the translation of long-term debt issued in foreign currencies and discounts, premiums or commissions arising from the issuance of debt or the acquisition of debt prior to maturity.

Revenue Recognition

Revenues are recognized in the period in which they are earned. Amounts received prior to being earned are reflected as deferred revenues.

Foreign Currency Translation

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 period-end rates of exchange and any exchange gains or losses are deferred and amortized over the remaining term to maturity.

3. Ontario Electricity Pension Services Corporation

OEFC was the administrator of the Ontario Electricity Financial Corporation Pension Plan and Fund. It was responsible for negotiating an agreement with each of the successor corporations for the division and transfer of the assets and liabilities of the OEFC pension plan to the pension plans of the successor corporations. The Ontario Electricity Pension Services Corporation (OEPSC), a wholly owned subsidiary of OEFC, acted as agent for OEFC to carry out the required administrative, investment and other responsibilities of the OEFC Pension Plan and Fund. Costs associated with the administration of the OEFC Pension Plan and Fund amounting to approximately $8 million (2001 - $17 million) were charged to and payable by the pension fund.

OEPSC made an application to the Superintendent of Financial Services for Ontario for approval to transfer all of the assets of the OEFC Pension Plan to the pension plans of the four successor operating entities. The Superintendent agreed to the transfer on June 6, 2001. With the exception of certain records and assets of nominal value, all pension fund assets were transferred to the pension plans of successor corporations on June 29, 2001. As OEPSC's functions have been completed, OEFC is in the process of winding up the company.

4. Economic Dependence

OEFC does not have its own credit rating and is, therefore, dependent on the Province to borrow and on-lend the funds required to refinance maturing debt and to cover any cash shortfalls in the Corporation. It is also dependent on the long-term plan to defease the unfunded liability described in Note 10. Based on the Province's support in refinancing maturing debt and the long-term plan, OEFC is considered a going concern.

5. Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit and highly liquid investments with maturities of less than three months. They are recorded at cost, which approximates current market value.

6. Due from Province of Ontario

The Province has committed to dedicate to OEFC the combined net income of OPG and Hydro One in excess of the Province's financing cost of its investment in its electricity subsidiaries. In the year ended March 31, 2002, earnings in the subsidiaries did not exceed the Province's financing cost of its investment. Consequently, no dedicated income transfer has been reflected. In addition, OEFC owed Hydro One a working capital adjustment in the amount of $122 million. Hydro One agreed to settle this amount owing to them as a reduction of their Shareholder’s Equity account rather than requiring OEFC to transfer cash in settlement of OEFC’s liability. In turn, the Province as sole shareholder of Hydro One reduced its investment in its subsidiary by a like amount. The net result of the Province’s settling this amount on OEFC’s behalf is that OEFC’s liability to Hydro One of $122 million has been eliminated in exchange for a reduction in OEFC’s receivable from the Province.

7. Notes and Loans Receivable

($ millions)

	Maturity date	Interest rate	Interest payable	March 31, 2002	March 31, 2001
Province of Ontario	2039 - 2041	5.85	Monthly	$ 8,885	$ 8,885
OPG	2003 - 2011	5.4 to 6.65	Semi-annually	3,200	3,300
Hydro One	2002 - 2007	5.4 to 14.3	Semi-annually	2,972	3,412
IMO	2009	7.90	Semi-annually	78	78
				15,135	15,675
Less: current portion of notes receivable				443	640
				14,692	15,035
Loans receivable from non-utility generators (NUGs) (See Note 9)				257	244
				$ 14,949	**$ 15,279**

OEFC has agreed with OPG and IMO not to sell notes owing from these successor entities without their prior approval. With respect to notes owing from Hydro One, OEFC is in discussions to secure approval to sell these notes.

OEFC has further agreed with OPG to defer principal repayments totalling $200 million originally due in March and September, 2002 until December 31, 2004.

8. Debt

Debt at March 31, 2002 is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

($ millions) Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	2002 Total	2001 Total
Maturing in:					
1 year	5,786	758	—	6,544	5,344
2 years	1,601	—	65	1,666	2,548
3 years	3,250	—	—	3,250	1,813
4 years	1,000	—	—	1,000	2,700
5 years	119	—	—	119	1,000
1-5 years	11,756	758	65	12,579	13,405
6-10 years	6,691	1,546	—	8,237	8,654
11-15 years	648	1,195	—	1,843	1,831
16-20 years	2,702	—	—	2,702	1,078
21-25 years	3,037	—	—	3,037	3,558
26-50 years	966	—	—	966	2,040
Total	**$ 25,800**	**$ 3,499**	**$ 65**	**$ 29,364**	**$ 30,566**

The effective rate of interest on the debt portfolio is 6.96% (2001 - 7.85%) before considering the effect of derivative instruments used to manage interest rate risk. The longest term to maturity is to October 17, 2031. Total foreign currency denominated debt at March 31, 2002 was $3.6 billion (2001 - $3.9 billion), of which $1.9 billion or 52.8% (2001 - $2.2 billion or 56.4%) was fully hedged to Canadian funds. Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

	March 31, 2002			March 31, 2001		
($ millions)	Held by the Province	Guaranteed by the Province	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	3,996	—	3,996	2,570	—	2,570
Current portion of long-term debt	48	2,500	2,548	569	2,205	2,774
Long-term debt	9,173	13,647	22,820	8,056	17,166	25,222
Total	**$ 13,217**	**$ 16,147**	**$ 29,364**	**$ 11,195**	**$ 19,371**	**$ 30,566**

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's debt at March 31, 2002 is $32.8 billion (2001 - $34.4 billion). This is higher than the book value of $29.4 billion (2001 - $30.6 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. Long-Term Liabilities

Power purchase agreements and related loan agreements were entered into by Ontario Hydro with non-utility generators (NUGs) located in Ontario. These contracts, expiring on various dates to 2048, provide for the purchase of power at prices that are expected to be in excess of the market price. This liability has been valued at $4,286 million on a discounted cash-flow basis. As the continued Ontario Hydro, OEFC is the counterparty to these contracts. In fiscal 2001-02 the power purchased from NUGs was resold at cost to the revenue pool managed by OPG. However, after open access on May 1, 2002, this power will be sold at market prices that may be greater or less than cost.

During the year, OEFC purchased power in the amount of $815 million (2001 - $695 million) and sold this power to the revenue pool for the same amount. Until September 30, 2001, Hydro One managed the NUG power purchase agreements and the related loans on behalf of OEFC for a fee of $1.5 million (2001 - $3 million). Beginning October 1, 2001, Enron Canada Corporation became contract manager. Effective April 18, 2002, the NUG Contract Management Agreement between Enron and OEFC was assigned to UBS Warburg Energy (Canada) Ltd. Annual fees will include both a fixed fee of approximately $750,000 plus a variable fee based on performance in minimizing losses on NUG power sales.

Loans to NUGs increased during the year by $13 million to $257 million at March 31, 2002 (2001 - $244 million), primarily due to interest revenue during the year which has been added to the principal balance.

Nuclear funding liability - OEFC as the continued Ontario Hydro received a liability in the amount of $2,378 million representing nuclear waste management and asset removal liabilities that were incurred prior to April 1, 1999. Interest has been accrued at an estimated 5.75 per cent and is included in the total value of $2,812 million as at March 31, 2002 (2001 - $2,659 million). Although the Nuclear Risk Sharing Agreement has been signed, the calculation of the interest rate is still under negotiation between the Province and OPG and is subject to change. The impact of the finalization of the interest rate for the fiscal year is not expected to result in a material difference to the liability balance.

10. Unfunded Liability - Restatement of Comparative Figures

Ontario Power Generation Inc. (OPG), in their 2001 Annual Financial Statements, restated their operating results and opening retained earnings for the year 2000 due to a change in accounting policy in the treatment of pensions and other benefits. This restatement reduced the net income of OPG and opening retained earnings for 2000, thereby reducing OEFC's payments-in-lieu of tax and electricity sector dedicated income for fiscal 2001 as set out below:

	2001		
($ millions)	Previously Stated	Change (reduction)	Restated
Payments-in-lieu of tax	$988	($81)	$907
Electricity sector dedicated income	$408	($145)	$263
Excess of revenue over expense	$244	($226)	$18
Unfunded liability	$19,790	$226	$20,016

Pursuant to the *Electricity Act, 1998* and consistent with the principles of electricity restructuring, the government has a long-term plan in place to retire OEFC liabilities from within the electricity industry. The Plan includes cash flows from the following sources as at April 1, 1999:

Notes receivable from the Province of $8.9 billion, OPG of $3.4 billion, Hydro One of $4.8 billion and IMO for $0.1 billion for a total of $17.2 billion as a result of the transfer of assets to successor companies,

Payments-in-lieu of corporate income, property and capital taxes made by OPG, Hydro One and municipal electric utilities,

A Debt Retirement Charge to be paid by ratepayers based on the consumption of electricity, and

Electricity Sector Dedicated Income - Consistent with the Government's commitment to keep electricity income in the electricity sector, the combined net income of OPG and Hydro One in excess of the Province's financing cost of its investment in its electricity subsidiaries will be set aside for the retirement of OEFC's debt.

The long-term plan supports a current estimate that OEFC's obligations will likely be defeased in the year 2012 (compared to 2010 at March 31, 2001).

11. Risk Management and Derivative Financial Instruments

OEFC employs various risk management strategies and 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 or currency risk is the risk of debt servicing costs and principal payments varying due to fluctuations in foreign exchange rates. To minimize currency risk, OEFC uses derivative contracts to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency cash flows to reach a maximum of 20 per cent of total debt. At year end, 7.5 per cent (2001 - 7.1%) of this debt was unhedged, with most of the currency exposure to U.S. dollars.

Floating rate risk is the exposure of OEFC to changes in short-term interest rates over a 12-month period. OEFC reduces its exposure to rate changes by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt, net of liquid reserves, to reach a maximum of 20 per cent of total debt. At year end, OEFC's floating rate debt as a percentage of total debt was 9.8 per cent (2001 - 5.7%).

Liquidity risk is the risk that OEFC will not be able to meet its current short-term financial obligations. As explained in Note 4, OEFC is dependent on the Province to borrow and on-lend the funds required to refinance maturing debt and to cover any cash shortfalls in the Corporation.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at March 31, 2002, 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
($ millions)
As at March 31, 2002

Maturity in Fiscal Year	2003	2004	2005	2006	2007	6-10 Years	Over 10 Years	Total	2001
Cross-currency swaps	-	644	-	-	-	884	-	1,528	1,806
Interest rate swaps	507	2,214	292	735	132	1,015	1,525	6,420	6,893
Forward foreign exchange contracts	974	-	-	-	-	-	-	974	1,171
Other[1]	200	-	50	-	-	-	-	250	662
Total	$ 1,681	2,858	342	735	132	1,899	1,525	9,172	$ 10,532

[1]Other includes: swaptions and forward rate agreements.

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, 2002.

Credit Risk Exposure ($ millions)	March 31, 2002	March 31, 2001
Gross credit risk exposure[1]	4,569	5,437
Less: Netting[2]	(4,709)	(5,519)
Net credit risk exposure[3]	$ (140)	$ (82)

Notes:
[1] Gross credit risk exposure includes credit exposure on swaps, options, futures, forward rate agreements and forward foreign exchange agreements.
[2] Contracts do not have coterminous settlement dates. However, master agreements provide for close out netting.
[3] Total exposure to counterparties with positive exposure (meaning that counterparties owed OEFC) was $111 million (2001 - $210 million) and the total exposure to counterparties with negative exposure (meaning that OEFC owed the counterparties) was $251 million (2001 - $292 million) for a total net credit exposure of ($140) million (2001 - ($82) million).

The gross credit risk exposure represents the amount of loss that OEFC would incur if every counterparty to which OEFC had credit risk exposure were to default at the same time and the netting of individual counterparty credit risk exposure was not allowed. OEFC manages its credit risk exposure from derivatives by entering into contractual agreements (master agreements) that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties. The net credit risk exposure includes the mitigating impact of these netting provisions.

OEFC manages its credit risk exposure by regularly monitoring compliance with credit limits and by dealing with counterparties with high credit quality. At March 31, 2002, OEFC's most significant concentrations of credit risk were with three "A+" or higher rated counterparties, each of which represented more than 10 per cent of the Net Credit Risk Exposure. The net cost to OEFC, if it had to replace all of the swap contracts with these three counterparties is, $15 million, $36 million and $60 million, respectively.

12. Contingencies and Guarantees

OEFC is involved in various legal actions arising out of the ordinary course and conduct of business, some of which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999. Under the terms of the April 1, 1999 restructuring of Ontario Hydro, each successor entity (OPG, Hydro One, ESA and IMO, and their respective subsidiaries) is responsible for any liabilities relating to those operations of the former Ontario Hydro that were transferred to it. In the event any such liabilities remained with OEFC, the successor entity is also required to indemnify OEFC. With respect to legal actions relating to the operations of Ontario Hydro that were retained by OEFC, the outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements of these contingencies, if any, will be reflected in the period in which settlement occurs.

Subject to a $10 million and $20 million deductible respectively, OEFC has agreed to indemnify Hydro One and OPG in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the companies 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. The Province of Ontario has guaranteed any liability arising from these indemnifications.

OEFC is contingently liable under guarantees given to third parties that have provided long-term financing to certain independent power producers in connection with the power purchase agreements described in Note 9. These guarantees total approximately $124 million at March 31, 2002 (2001 - $135 million).

Corporate Governance

Appointed by the Lieutenant Governor in Council, the Board of Directors is responsible for supervising OEFC's business. Day-to-day operations are carried out by the Ontario Financing Authority, Ministry of Finance and Ontario Electricity Pension Services Corporation on OEFC's behalf. The Board of Directors meets at least quarterly. It monitors OEFC's financial performance and approves OEFC's business plan for each year as well as its financial policies.

The OEFC Audit Committee supports the Board of Directors with the review and recommendation for approval of OEFC's financial statements. The Audit Committee also recommends the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls.

OEFC's Board also has a NUG Committee. This committee makes decisions concerning OEFC's Power Purchase Agreements. Membership includes OEFC Directors representing the Ministry of Finance and the Ministry of Environment and Energy.

The Board of Directors
2001-02

Bob Christie	Chair and Deputy Minister of Finance. [Appointed from September 2000 to September 2003]
Michael L. Gourley	Vice-Chair and Chief Executive Officer, Vice-Chair and Chief Executive Officer of the Ontario Financing Authority. [Appointed from July 2002 to June 2005]*
Gadi Mayman	Vice-Chair and Chief Executive Officer, Vice-Chair and Chief Executive Officer of the Ontario Financing Authority. [Interim appointment from August 2000 to June 2002]
Brian FitzGerald	A Fellow of the Canadian Institute of Actuaries. [Appointed from April 2001 to March 2003]
Bryne Purchase	Deputy Minister, Ministry of Environment and Energy. [Appointed from April 2001 to March 2004]
Tom Sweeting	Assistant Deputy Minister, Office of the Budget and Taxation, Ministry of Finance. [Appointed from April 2001 to March 2004]
Bruce Macnaughton	Director, Pension and Income Security Policy Branch, Ministry of Finance. [Appointed from April 2001 to March 2004]

*Appointment effective July 1, 2002

Corporate Policies

Risk Management Policies and Procedures for Borrowing and Debt Management

Risk management policies and procedures at OEFC provide for the management of OEFC exposures.

Current policies and procedures address market, credit and operational risk exposure, primarily as they pertain to OEFC's debt and derivatives portfolios and capital markets transactions.

With the advent of the electricity market and the exposures inherent in the management of the NUGs contracts and related transactions, policies specifically addressing these exposures were recommended to the Board of Directors and approved. These policies and associated procedures will be used to develop and implement an infrastructure for monitoring and assessing NUG-related exposures.

The OFA incurs credit, market, operational and liquidity risks in managing the debt of OEFC. These risks are managed in accordance with directives of senior management and the OEFC Board of Directors. The Board and management committees establish and approve risk management policies and monitor the performance of the OFA's OEFC-related capital market activities.

OEFC has a number of policies in place to mitigate financial risks: market risk, credit risk, operational risk and risks related to the use of derivatives. These policies were developed following the Group of Thirty's best practices, the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements (BIS), and consulting with Canadian bank representatives on their risk management practices.

Overview and Structure

<table>
<tr><th colspan="2">Board of Directors</th></tr>
<tr><td colspan="2">
• Reviews and approves key risk management policies.
• Supervises the management of the OEFC's debt portfolio and NUG power sales.

Audit Committee
• Oversees the financial reporting process on behalf of the Board of Directors.
• Reviews key risk management policies, internal audit reports and the financial statements.
</td></tr>
<tr><th colspan="2">Management Committees</th></tr>
<tr><td>
Risk Management Committee
• Reviews daily market updates and outlook.
• Reviews current borrowing, investing and debt management positions and strategies.
</td><td>
Borrowing Strategy Committee
• Reviews economic conditions, fiscal plan and capital markets outlook.
• Reviews borrowing and debt management activities and management reports, cash flows and the annual financing charge forecast.
• Reviews operational limits and procedures related to financial operations.
• Approves amendments and exceptions to approved risk management policies and procedures.
• Approves risk management policies for recommendation to the Board of Directors.
</td></tr>
<tr><th colspan="2">Risk Control Division</th></tr>
<tr><td colspan="2">
• Monitors, measures and assesses market risks and performance associated with borrowing and NUG power sales.
• Reports on the performance in response to best industry practices in an evolving business environment and underlying risks of the programs and compliance with all policies on a timely basis to senior management and the Board of Directors.
• Develops risk management policies and monitors compliance with Board-approved policies, limits and procedures, and monitors portfolio performance and trends.
• Assesses counterparty credit risk and manages rating agency relations.
</td></tr>
</table>

Market Risk

Market Risk is the risk of financial loss attributable to changes in the values of financial indices including interest rates, credit spreads, foreign exchange and liquidity risk.

This policy provides a framework for borrowing and integrates several aspects dealing with the management of market risk.

- Foreign Exchange Limit - OEFC's exposure to unhedged foreign currencies is limited to 20 per cent of outstanding debt. This limit will be reduced to five per cent as soon as feasible and prudent. Foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc or the equivalent currencies (i.e., the Euro).
- Floating Rate Exposure - OEFC is limited to a maximum floating rate exposure of 20 per cent of debt.

- Risk Management Loss Limits - The total amount of financial losses resulting from market risk and the default of counterparties shall not exceed a debt cost loss limit specified by the Board of Directors. Additionally, the CEO establishes a debt management trigger level to ensure that losses will not reach the debt cost loss limit. The trigger level is included in the Annual Financing and Debt Management Plan.
- Risk Measurement - OEFC identifies and quantifies exposures to market risk in its Annual Financing and Debt Management Plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Exposure to market, credit and liquidity risk is measured daily.
- Debt Maturity Profile - When issuing new debt on behalf of OEFC, the OFA will aim for a smooth debt maturity profile to diversify the interest rate risk for the refinancing of maturing and floating rate debt.

Credit Risk

Credit risk is risk that a counterparty defaults on its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions on behalf of OEFC. The minimum credit rating of a counterparty for a new swap transaction is AA- and R1-mid for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base.

Operational Risk

The OFA manages operational risk through procedures that deal with model risk, legal risk, settlement risk and information systems risks.

Model Risk: The OFA regularly reviews its pricing models for accuracy and compliance with industry standards. It also regularly reviews the valuation of financial instruments.

Legal Risk: The OFA has established procedures and standards to ensure that documentation of debt issues, debt management and money market transactions meets industry standards and is enforceable.

Settlement Risk: The OFA has established internal control procedures and systems, involved external service providers and trained its staff to ensure that transactions are settled correctly and in a timely manner, are recorded accurately, and that service providers are appropriately involved.

Information Systems Risk: The OFA has taken measures to protect computer systems and access to the offices of the OFA, monitoring the computer room environment, the establishment of a back-up power source, regular data back-ups, off-site storage, firewalls to protect against unauthorized network intrusions and computer virus scanning. Security is reviewed periodically and when major changes occur.

Use of Derivatives

Derivatives are used solely to advance the OFA's objective of providing OEFC's financing and liquidity requirements in a sound and cost-effective manner. Derivatives are used to manage exposures arising from existing and planned debt, and in a manner consistent with the Annual Financing and Debt Management Plan. Risks arising from the use of derivatives are identified, monitored, evaluated and managed prudently.

Risk Management Policies for NUG Power Sales

Market Risk

The NUG Market Risk Policy for Electricity Risk Management provides for a framework governing the use of electricity derivatives for the program, as well as volumetric limits on the level of forward sales and financial loss limits. A key requirement for electricity forwards and other derivative contracts is OEFC's ability to price and measure the risk associated with them. The policy mandates an annual NUG risk management plan, which delineates the assumptions for the upcoming fiscal year, including economic and electricity price assumptions, base case and contingency plans for managing and diversifying risk, and supply availability assumptions. A risk assessment for all assumptions is also required.

Credit Risk

OEFC incurs credit risk in the course of its forward transactions with counterparties in the marketplace. This policy addresses that risk through minimum credit ratings, through exposure, term, and concentration limits. Additionally, the policy sets out requirements for documentation and enforceability. Monitoring and reporting of credit exposures and credit quality are performed by Risk Control Division.

Supply Availability Risk

Supply Availability Risk is the risk associated with having to meet contractual obligations associated with portfolio hedging transactions through open market transactions. As with financial market activities, management of OEFC's NUGs electricity generation portfolio must assess both market and counterparty credit risks. In addition, managing these risks is further complicated by such risks as equipment breakdown, fuel availability and fuel costs, all of which could affect OEFC's ability to meet its contractual obligations through NUGs supply.

Risk Management Reporting

At its regular quarterly meetings, the OEFC Board of Directors is kept informed of OEFC's activities, positions and risk exposures through three types of reports:

- CEO's report;
- Exposure and performance report; and
- Exception report provided by the Director of Risk Control, OFA.

OEFC's Annual Financing and Debt Management Plan, which indicates how the OFA will ensure that risk exposures and losses remain within the approved exposure and loss limits, is approved by the Board of Directors each year.

The CEO provides the Board of Directors with a progress report on the implementation of the Annual Financing and Debt Management Plan, staffing and other administrative and operational matters. The CEO also reports on OEFC's compliance with applicable government directives, and OFA Legal Counsel reports on compliance with applicable laws.

In addition, OFA Management is kept informed of OEFC's risk exposures and positions on a daily basis.

Sources of Additional Information

Internet:

Ontario Electricity Financial Corporation	**www.oefc.on.ca**

Provides information on OEFC's debt, pension plan, board of directors and contains other relevant publications.

Ontario Financing Authority (OFA)	**www.ofina.on.ca**

Provides a description of the OFA's activities, Ontario debt issues and retail products and contains publications from the OFA and the Ontario Ministry of Finance.

Other Links:

Ministry of Finance	www.fin.gov.on.ca
Ministry of Environment and Energy	www.est.gov.on.ca
Ontario Power Generation Inc.	www.opg.com
Hydro One Inc.	www.hydroone.com
Ontario Electrical Safety Authority	www.esainspection.net
Independent Electricity Market Operator	www.iemo.com

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