OEFC

ONTARIO ELECTRICITY FINANCIAL CORPORATION

2009 Annual Report

Ontario

Mandate

The Ontario Electricity Financial Corporation (OEFC or the Corporation) is one of five corporations established by the *Electricity Act, 1998*. Under the *Electricity Act*, the former Ontario Hydro was restructured into Ontario Power Generation Inc. (OPG), Hydro One Inc. (Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and the OEFC.

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

- managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro
- managing the former Ontario Hydro's non-utility generator (NUG) contracts in the current market environment
- receiving all payments and administering other assets, liabilities, rights and obligations of the Corporation that were not transferred to another of the Hydro successor corporations, and disposing of any of these items as it deems appropriate or as directed by the Minister of Finance
- providing financial assistance to the successor corporations of Ontario Hydro
- entering into financial and other agreements relating to the supply of electricity in Ontario
- performing any additional objects specified by the Lieutenant Governor in Council.

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

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Message from the Chair and Vice-Chair

We are pleased to present the 2009 Annual Report of the Ontario Electricity Financial Corporation. The report describes the Corporation's operational highlights and financial results for the year ended March 31, 2009.

Revenue exceeded expense by $1,043 million in 2008–09, reducing the Corporation's unfunded liability from $17.2 billion to $16.2 billion as at March 31, 2009.

The unfunded liability has declined for five consecutive years. It is $3.2 billion less than the initial unfunded liability on April 1, 1999, when Ontario Hydro was restructured. Total debt and liabilities were $30.5 billion, down from the $38.1 billion inherited by the Corporation from the restructuring. The residual stranded debt will likely be retired between 2014–2018.

Over the past year, the Ontario Financing Authority completed the OEFC's long-term public borrowing requirements of $3.5 billion, primarily to refinance maturing debt.

Cost savings of $1.8 million were achieved through incremental power arrangements, curtailments and outage shifting.

Looking ahead to 2009–10, the Corporation will continue to manage its debt and liabilities in a cost-effective manner and support the implementation of the government's electricity policies and initiatives.

Peter Wallace
Chair

Gadi Mayman
Chief Executive Officer and Vice-Chair

Management's Discussion and Analysis

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Management's Discussion and Analysis

2008–09 HIGHLIGHTS:

- Fifth consecutive annual decline in the unfunded liability
- Residual stranded debt will likely be retired between 2014–2018
- Completed long-term public borrowing requirement of $3.5 billion
- Achieved cost-savings of $1.8 million through incremental power arrangements, curtailments and outage shifting.

Financial Results

Revenue and Expense

Total revenue for 2008–09 was $3.9 billion, a decrease of $135 million from 2007–08. Revenue included $970 million from the debt retirement charge; $953 million in power sales; $789 million in interest income from the Province, Ontario Power Generation and the Independent Electricity System Operator; and $830 million in payments-in-lieu of taxes.

Total expense was $2.9 billion, a decrease of $114 million from 2007–08. Expense included interest payments on short- and long-term debt of $1.7 billion and power purchases of $953 million under the power purchase agreements with non-utility generators.

Overall, revenue exceeded expense by $1,043 million. In 2007-08, revenue exceeded expense by $1,064 million.

Borrowing Program

In 2008–09, the OFA completed the Corporation's long-term public borrowing requirements of $3.5 billion, most of which was for long-term debt maturities. Borrowing requirements decreased from the $3.6 billion estimated at the time of the 2008 Ontario Budget, mainly due to a decrease in Ontario Power Generation's planned financing requirements.

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

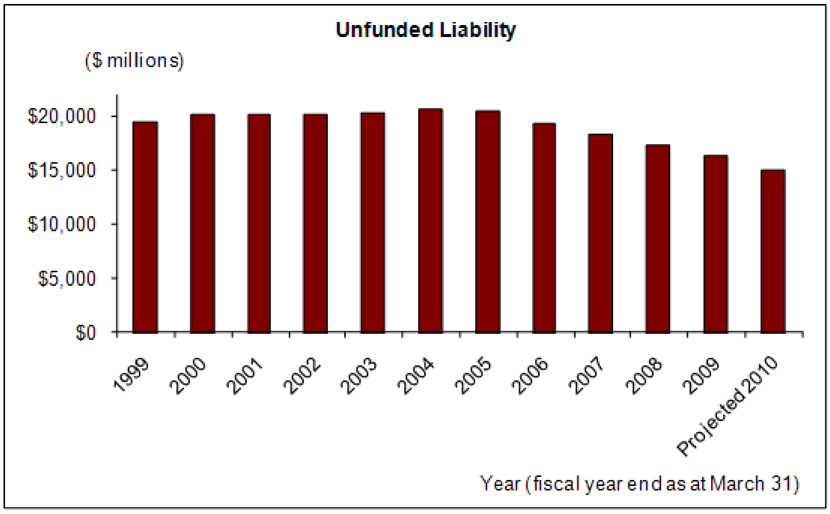
Borrowing program performance is measured by the difference between the total cost of the actual borrowing program and the total cost of a hypothetical domestic borrowing program of the same term and size, and implemented evenly over the fiscal year (known as the "even-pace benchmark"). As at March 31, 2009, the borrowing program's cost was $3.6 million lower than the even-pace benchmark, on a present-value basis.

Debt and Liabilities

The Corporation inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the electricity sector was restructured on April 1, 1999. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, resulting in $20.9 billion of stranded debt that was not supported by those assets. The initial unfunded liability of $19.4 billion was the stranded debt adjusted for $1.5 billion of additional assets.

As at March 31, 2009, total debt and liabilities were $30.5 billion, with total debt at $27.6 billion. These figures compare to total debt and liabilities of $31.6 billion, with total debt of $28.2 billion, as at March 31, 2008.



The unfunded liability was $16.2 billion as at March 31, 2009, a decrease of $1.0 billion from March 31, 2008. This is the fifth consecutive annual decline in the unfunded liability, $3.2 billion below the $19.4 billion level as at April 1, 1999.

Residual Stranded Debt
As at April 1, 1999, the present value of payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, known as residual stranded debt.

The *Electricity Act, 1998*, provided for the debt retirement charge to be paid by consumers until the residual stranded debt is retired. The debt repayment plan supports estimates that residual stranded debt will likely be retired between 2014–2018.

Debt Repayment Plan

As the legal continuation of the former Ontario Hydro, the OEFC services and retires the debt and other liabilities through revenues and cash flows from these sources within the electricity sector:

- Outstanding notes receivable from the Province, OPG and IESO
- Payments-in-lieu of corporate income, capital and property taxes, made by OPG, Hydro One and municipal electric utilities
- Debt retirement charge paid by electricity consumers
- Electricity sector dedicated income — the Province's combined cumulative net income from OPG and Hydro One in excess of the Province's interest cost of its investment in these subsidiaries.

Risk Management

The OEFC's risk management policies and procedures provide for the management of risk exposures associated with the Corporation's debt, derivatives and related capital markets transactions.

Foreign exchange and net interest rate resetting exposures remained within policy limits in 2008–09.

- Foreign exchange exposure remained at 0.0 per cent of outstanding debt as at March 31, 2009. The foreign exchange exposure limit for the OEFC is 5 per cent, but the Corporation had no exposure during the fiscal year.
- Net interest rate resetting exposure was 19.5 per cent of outstanding debt as at March 31, 2009, within the limit of 35 per cent.

Other Responsibilities

Management of Power Purchase Agreements

During 2008–09, the Corporation continued negotiating revisions to non-utility generator contracts so their terms would be consistent with the hybrid electricity market. The hybrid market was created by the *Electricity Restructuring Act, 2004*, which combined regulated, contract and competitive market pricing.

Efficiencies were achieved in managing the existing power purchase agreements with the non-utility generators in 2008–09. Generator costs dropped by $1.8 million, compared to a $1.7 million drop in 2008, through auxiliary services revenue, incremental power agreements and other transactions that increase or shift the time of electricity generation under the contracts.

Previously, the Corporation purchased power from the non-utility generators under contract terms and sold the power at market prices lower than cost. However, as at January 1, 2005, the Corporation began to receive actual contract prices for power from ratepayers, eliminating losses on power purchase contracts. At that time, the Ministry of Finance estimated that most of the liability would be eliminated over 12 years as existing contracts expire. The liability for power purchase contracts was valued at $2.2 billion as at March 31, 2009, compared to $2.6 billion as at March 31, 2008.

Supporting New Electricity Supply Projects

Beginning in 2005, the Corporation began to provide financing on commercial terms to Ontario Power Generation to develop new electricity supply projects:

- Development of a loan agreement of up to $1.0 billion for the Niagara Tunnel project, which will increase electricity generated by the Sir Adam Beck hydro complex in Niagara Falls. OPG announced in May 2009 that the cost estimate for the Niagara tunnel project has increased to $1.6 billion, and that OPG is pursuing an amendment to the Niagara Tunnel project credit facility, consistent with the revised cost estimate.
- Long-term loan agreements of amounts up to $400 million for the Portlands Energy Centre in Toronto and up to $50 million for the Lac Seul hydroelectric project in Northwestern Ontario, both of which reached commercial operation in 2009.

These projects will help Ontario build a cleaner and greener electricity system, consistent with the Government's direction to the Ontario Power Authority to replace coal-fired generation and further enhance the amount and diversity of renewable energy sources in its proposed Integrated Power System Plan, and the Government's *Green Energy and Green Economy Act, 2009*.

Supporting the Implementation of the Government's Electricity Industry Policies

- Implemented a Directive from the Minister of Finance to enter into a contract with OPG to provide for the continued reliability and availability of the Lambton and Nanticoke coal-fired stations. Any OEFC net costs under the contract are to be recovered from electricity consumers. The contingent support agreement is effective as of January 1, 2009, when OPG implemented a strategy to reduce greenhouse gas emissions from its coal plants, as directed by the Province.

2009–10 Outlook

The Ontario Electricity Financial Corporation will focus on the following:

Managing debt and other liabilities cost-effectively
The Ontario Financing Authority will continue to manage the Corporation's debt and liabilities in a cost-effective manner and within exposure limits approved by the Board of Directors. In addition, the OFA will complete the Corporation's 2009–10 long-term public borrowing requirements of $1.9 billion, mostly to refinance debt maturities.

Managing financial risk within approved policy limits
The debt portfolio will be managed within exposure limits throughout 2009–10.

Administering non-utility generator contracts in the hybrid electricity market
The Corporation will continue to minimize costs to ratepayers through effective administration of the NUGs contracts.

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

Supporting the implementation of the government's electricity industry policies and analyzing and monitoring the impact on the Corporation
The Corporation will continue to support the government's electricity initiatives as requested and will monitor and analyze their impact on the Corporation.

Financial Statements

- Responsibility for Financial Reporting
- Auditor's Report
- Statement of Financial Position
- Statement of Revenue, Expense and Unfunded Liability
- Statement of Cash Flow
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Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Electricity Financial Corporation have been prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants 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 12, 2009.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. The Ontario Internal Audit Division of the 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 is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee assists the Board in carrying out these responsibilities. It 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 Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the OEFC's financial statements fairly present the OEFC's financial position in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. 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
Chief Executive Officer and Vice-Chair

Auditor's Report

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

Auditor's Report

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

I have audited the statement of financial position of the Ontario Electricity Financial Corporation as at March 31, 2009 and the statements of revenue, expense and unfunded liability and cash flow 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 12, 2009

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

Ontario Electricity Financial Corporation

Statement of Financial Position (as at March 31, 2009)
($ millions)

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	$ 3	$ 3
Accounts receivable	315	290
Interest receivable	22	20
Current portion of notes receivable (Note 6)	785	375
	1,125	688
Payments-in-lieu of tax receivable (Note 10)	301	185
Due from Province of Ontario (Note 5)	840	840
Notes and loans receivable (Note 6)	11,893	12,412
Deferred debt costs	118	210
	$ 14,277	$ 14,335
LIABILITIES		
Current Liabilities		
Accounts payable	$ 182	$ 219
Interest payable	481	519
Short-term notes payable (Note 7)	985	1,206
Current portion of long-term debt (Note 7)	2,319	3,883
	3,967	5,827
Long-term debt (Note 7)	24,286	23,154
Power purchase contracts (Note 9)	2,206	2,579
	30,459	31,560
Contingencies and guarantees (Note 11)		
UNFUNDED LIABILITY (Notes 1, 3, 10)	(16,182)	(17,225)
	$ 14,277	$ 14,335

Approved on behalf of the Board of Directors:

Peter Wallace
Chair

Gadi Mayman
Chief Executive Officer and Vice-Chair

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Revenue, Expense and Unfunded Liability

For the year ended March 31, 2009
($ millions)

	2009	2008
REVENUE		
Debt retirement charge (Notes 1, 10)	$ 970	$ 982
Payments-in-lieu of tax (Notes 1, 10)	830	546
Interest	789	776
Power sales (Note 9)	953	929
Net reduction of power purchase contracts (Note 9)	373	398
Electricity sector dedicated income (Note 5, 10)	—	422
Other	8	5
Total Revenue	$ 3,923	$ 4,058
EXPENSE		
Interest - short-term debt	$ 55	$ 85
- long-term debt	1,678	1,777
Amortization of deferred charges	47	57
Power purchases (Note 9)	953	929
Debt guarantee fee	141	139
Operating	6	7
Total Expense	2,880	2,994
Excess of revenue over expense	1,043	1,064
Unfunded liability, beginning of year	17,225	18,289
Unfunded Liability, end of year	$ 16,182	$ 17,225

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Cash Flow

For the year ended March 31, 2009

($ millions)

	2009	2008
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess of revenue over expense	$ 1,043	$ 1,064
Adjustments for:		
Payments-in-lieu of tax (Note 1, 10)	(116)	82
Net reduction of power purchase contracts (Note 9)	(373)	(398)
Electricity sector dedicated income (Note 5, 11)	—	(422)
Amortization of deferred charges	47	57
Other Items	(87)	2
Cash provided from operations	$ 514	$ 385
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issues	$ 3,475	$ 2,518
Less long-term debt retired	3,883	1,801
Long-term debt issued (retired), net	(408)	717
Short-term debt (retired), net	(221)	(377)
Notes receivable (advance) repayment	115	(725)
Cash provided (required by) financing activities	(514)	(385)
Increase in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of year	3	3
Cash and cash equivalents, end of year	$ 3	$ 3
Interest on debt paid during the year and included in excess of revenue over expense	$ 1,771	$ 1,901

See accompanying notes to financial statements.

Notes to Financial Statements

1) Electricity Sector Reform

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* (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;
- Independent Electricity System Operator (IESO), the regulated centralized independent system coordinator 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 IESO 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 *Electricity 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. OEFC also receives a Debt Retirement Charge (DRC) to be paid by electricity consumers at a rate of 0.7 cents/kWh for most Ontario consumers until the residual stranded debt is retired. The Ontario Financing Authority, an agency of the Province that is responsible for borrowing and investing monies for the Province and other public bodies, provides day-to-day management services to OEFC.

On December 9, 2004, the *Electricity Restructuring Act, 2004* was passed, resulting in a combination of a fully regulated and competitive electricity sector with different generators receiving prices set through a variety of mechanisms. Electricity generated from OPG's nuclear and baseload hydro generation assets receive regulated prices, and electricity from those generators with existing or new contracts receive prices as determined by their contracts. Consumers pay a blend of these costs including the pass-through of regulated prices for OPG's regulated plants, the full costs for existing and new contracts for generation and market prices for other generation facilities. The Act also created the Ontario Power Authority to ensure an adequate long-term supply of electricity.

2) Summary of Significant Accounting Policies

Basis of Accounting
As OEFC is a government organization, these financial statements are prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) 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 valuation of the power purchase contracts and the estimated defeasance date for OEFC's obligations. 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.

Deferred Debt Costs
Deferred debt costs includes the unamortized amounts related to any 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. These costs are amortized to operations over the life of the underlying debt.

Revenue Recognition
Revenues are recognized in the period in which they are earned.

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 year-end rates of exchange and, in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, any exchange gains or losses are deferred and amortized over the remaining term to maturity.

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

3) Going Concern

OEFC is dependent on the Province to borrow to finance maturing debt and to cover any cash shortfalls in the Corporation. It is also dependent on the government's long-term plan to defease the unfunded liability described in Note 10.

4) Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit and highly liquid investments recorded at cost, which approximates current market value.

5) Due from Province of Ontario

The Province has committed to dedicate the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC. Under these arrangements, the Province can recoup all costs associated with its investments in electricity subsidiaries on a cumulative basis before any income can be recognized by OEFC. For the year ended March 31, 2009, OPG and Hydro One earned an aggregate amount of $435 million (2008 – $926 million). This amount is $85 million less than the Province's annual financing cost of $520 million. Therefore, no dedicated income transfer has been reflected for the year (2008 – $422 million).

6) Notes and Loans Receivable

($ millions)	Maturity Date	Interest Rate	Interest Payable	March 31, 2009	March 31, 2008
Province of Ontario	2039-2041	5.85	Monthly	$ 8,885	$ 8,885
OPG	2009-2019	4.81 to 6.65	Semi-annually	3,625	3,740
IESO	2009	7.9	Semi-annually	78	78
				12,588	12,703
Less: Current portion of notes receivable				785	375
				11,803	12,328
Add: Loans receivable from non-utility generators (NUGs) (See Note 9)				90	84
				$ 11,893	**$ 12,412**

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

OEFC has agreed to provide OPG financing for new generation project development in the form of 10-year notes on commercial terms and conditions. These agreements provide for up to $1 billion in loans for the Niagara Tunnel project, up to $400 million for OPG's interest in the Portlands Energy Centre, and up to $50 million for the Lac Seul project. Under these agreements, $370 million has been advanced for the Niagara Tunnel project, $315 million for the Portlands Energy Centre, and $20 million for the Lac Seul project.

As of March 31, 2009, OPG had $175 million available on a line of credit to finance existing maturities expiring on December 31, 2009.

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

Fiscal Year	Amount ($ millions)
2009-10	$ 707
2010-11	625
2011-12	188
2012-13	400
2016-17	320
2017-18	1,125
2018-19	260
Total	**$3,625**

Subsequent to the year-end, the note receivable from the IESO was extended to mature on May 1, 2011 bearing interest at a floating rate equal to the yield on the Province of Ontario Treasury Bills plus 25 basis points to be reset every 90 days.

7) Debt

Debt at March 31, 2009 is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

($ millions) Currency	Canadian Dollars	U.S. Dollars	Other Foreign	2009 Total	2008 Total
Maturing in:					
1 year	$ 3,165	—	$ 139	$ 3,304	$ 5,089
2 years	1,200	—	53	1,253	2,318
3 years	500	—	47	547	1,253
4 years	800	977	118	1,895	547
5 years	3,314	—	322	3,636	1,895
1-5 years	8,979	977	679	10,635	11,102
6-10 years	7,498	667	854	9,019	9,102
11-15 years	3,757	—	—	3,757	3,817
16-20 years	2,191	—	—	2,191	2,163
21-25 years	850	—	—	850	929
26-50 years	1,138	—	—	1,138	1,130
Total	**$24,413**	**$1,644**	**$1,533**	**$27,590**	**$28,243**

The effective rate of interest on the debt portfolio was 6.14 per cent after considering the effect of derivative instruments used to manage interest rate risk (2008 – 6.36 per cent). The longest term to maturity is to June 2, 2037. Total foreign currency denominated debt at March 31, 2009, was $3.2 billion, 100 per cent of which was fully hedged to Canadian funds (2008 – $2.9 billion or 100 per cent). Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

Debt	March 31, 2009			March 31, 2008		
($ millions)	Held by the Province	Guaranteed by the Province	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	$ 985	—	$ 985	$ 1,206	—	$ 1,206
Current portion of long-term debt	2,319	—	2,319	2,506	1,377	3,883
Long-term debt	16,352	7,934	24,286	15,220	7,934	23,154
Total	**$19,656**	**$7,934**	**$27,590**	**$18,932**	**$9,311**	**$28,243**

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, 2009, was $32.2 billion (2008 – $32.6 billion). This is higher than the book value of $27.6 billion (2008 – $28.2 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.

8) 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 that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, derivative contracts are used to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency debt principal, net of foreign currency holding, to reach a maximum of 5 percent of total debt. At March 31, 2009, the actual unhedged level was 0.0 percent (2008 – 0.0 percent) of total debt.

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 twelve months, net of liquid reserves, to reach a maximum of 35 percent of total debt. At March 31, 2009, interest rate resetting risk as a percentage of total debt was 19.5 percent (2008 – 23.6 percent).

Liquidity risk is the risk that 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 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, 2009 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, 2009 ($ millions)

Maturity in Fiscal Year	2010	2011	2012	2013	2014	6-10 Years	Over 10 Years	Total	March 2008
Cross-currency swaps	$ 522	$109	$100	$1,215	$ 704	$2,132	—	$ 4,782	$ 3,652
Interest rate swaps	742	—	147	1,016	457	3,688	653	6,703	6,812
Forward foreign exchange contracts	162	—	—	—	—	—	—	162	34
Total	**$1,426**	**$109**	**$247**	**$2,231**	**$1,161**	**$5,820**	**$653**	**$11,647**	**$10,498**

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, 2009.

Credit Risk Exposure ($ millions)	March 31, 2009	March 31, 2008
Gross credit risk exposure[1]	$ 6,306	$ 4,844
Less: Netting[2]	(6,784)	(5,572)
Net credit risk exposure[3]	**$ (478)**	**$ (728)**

Numbers may not add due to rounding.

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 $53 million (2008 - $1 million) and the total exposure to counterparties with negative exposure (meaning that OEFC owed the counterparties) was $531 million (2008 - $729 million) for a total net credit exposure of $(478) million (2008 - ($728) 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 were not allowed. Credit risk exposure from derivatives is managed 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. Exclusive of contracts with the Province, OEFC's most significant concentration of credit risk at March 31, 2009 was with one AA- rated counterparty which represented more than 10 percent of the credit risk exposure. The cost to OEFC if it had to replace the contracts with this counterparty would be $51 million (2008 – $Nil).

9) Power Purchase Contracts

Power purchase contracts and related loan agreements were entered into by Ontario Hydro with non-utility generators (NUGs) located in Ontario. As the legal continuation of Ontario Hydro, OEFC is the counterparty to these contracts. The contracts, expiring on various dates to 2048, provided for the purchase of power at prices that were expected to be in excess of the market price. Accordingly, a liability was recorded at $4,286 million on a discounted cash-flow (DCF) basis when Ontario Hydro was continued as OEFC on April 1, 1999. The DCF model was updated as of March 31, 2003, which reduced the estimated liability by $422 million to $3,745 million. This revaluation change from 2002-03 is being amortized to revenue over a ten-year period.

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

Effective January 1, 2009, OEFC entered into a contract with OPG to assist in funding the costs associated with the implementation of a greenhouse gas emissions reduction strategy for the Lambton and Nanticoke coal fired stations. This agreement, which expires December 31, 2014, ensures any costs to OEFC are fully recovered from ratepayers.

During the year ended March 31, 2009, OEFC's costs and revenues under the contracts totaled $953 million (2008 – $929 million), including purchased and sold power from NUGs of $914 million and OPG support contract costs and revenues of $39 million.

Loans receivable from NUGs increased during the year by $6 million to $90 million (2008 – $84 million), primarily due to interest which has been added to the principal balance.

Statement of Liability for Power Purchase Contracts ($ millions)		
As at March 31, 2009		
	2009	**2008**
Liability, beginning of year	$2,579	$2,977
Amortization	373	398
Liability, end of year	**$2,206**	**$2,579**

10) Unfunded Liability

The opening unfunded liability of $19.4 billion at April 1, 1999, was composed of $38.1 billion in liabilities assumed from old Ontario Hydro less the value of assets transferred to OEFC at April 1, 1999, including $17.2 billion in notes receivable and $1.5 billion in loans receivable and other assets. 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 sector. The plan included 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 IESO 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, capital and property taxes made by OPG, Hydro One and municipal electric utilities;
- **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 cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries will be allocated to the retirement of OEFC's debt.

The long-term plan supports estimates that OEFC's obligations will likely be defeased in the years ranging from 2014 to 2018.

11) 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. For the majority of these claims, OPG or Hydro One is required to indemnify OEFC for any liability arising from these claims. For claims on which OEFC is provided no indemnification, the outcome and ultimate disposition of these legal actions is not determinable at this time. Accordingly, no provision is reflected in the financial statements, and settlements, if any, will be reflected in the period in which settlement occurs.

Subject to a $10 million deductible, OEFC has agreed to indemnify Hydro One in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the company at April 1, 1999, and any failure of the transfer order to transfer such assets, rights or things and with respect to payment to or from or other dealing with any equity account of Ontario Hydro, including certain related litigation. The Province of Ontario has guaranteed any liability arising from these indemnifications. A similar indemnity provided to OPG was terminated as of May 31, 2006.

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 $46 million at March 31, 2009 (2008 – $57 million).

12) Related Party Transactions

In the normal course of operations, OEFC has transactions with the following related parties, all of which have been disclosed in the notes to the financial statements. Each of the following entities is included in the Province's financial statements:

- Province of Ontario
- Ontario Power Generation Inc.
- Hydro One Inc.
- Independent Electricity System Operator
- Ontario Power Authority
- Ontario Financing Authority

Corporate Governance

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

Corporate Governance

Overview

The OEFC is an agent of the Crown and is classified as an operational enterprise agency.

Corporate governance at the OEFC involves processes that permit the effective supervision and management of activities by senior management, the Board of Directors, its Audit Committee and the Minister of Finance. It includes identifying individuals and groups responsible for the Corporation's activities and specifying their roles. The governance framework is based on Management Board of Cabinet's (MBC) Agency Establishment and Accountability Directive.

Accountability and Responsibilities

The OEFC's accountability structure flows from its governing statute, the *Electricity Act, 1998* (the Act). The Minister of Finance is the minister responsible for the administration of the Act in respect of the OEFC. The Act, together with a Memorandum of Understanding (MOU) between the OEFC and the Minister of Finance and directives issued by Management Board of Cabinet (MBC) relating to Crown agencies, form a framework under which the OEFC is governed.

Each year, the Minister is required to submit the OEFC's Annual Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves the annual business plan and recommends the plan for approval to MBC every three years or as otherwise required by government directives. The Minister also maintains communications with the OEFC through the Chair of the Board of Directors (the Chair) regarding government policies and expectations relevant to the OEFC.

The Chair is accountable to the Minister of Finance for the performance of the OEFC in fulfilling its mandate. The current Chair is also the Deputy Minister of Finance. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OEFC. In addition, the Chair provides leadership and direction to the OEFC's Board of Directors and the Chief Executive Officer (CEO) and ensures that the OEFC complies with governmental policies and directives.

The Board of Directors is appointed by the Lieutenant Governor in Council and is accountable to the Minister through the Chair for supervising the management of the OEFC. The current Board of Directors is comprised of public servants employed by the Crown. The Board meets at least quarterly and receives regular reports from the CEO and staff of the Ontario Financing Authority concerning the operations of the OEFC and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

The Audit Committee of the Board approves an annual internal audit plan and liaises with the Corporation's internal auditors and the Auditor General of Ontario regarding financial reporting and controls. It also reviews financial policies and financial statements and recommends them to the Board.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. The CEO is accountable to the Chair for the day-to-day management of the OEFC and for the performance of any other functions assigned by the Board of Directors. The CEO is responsible for managing the ongoing activities of the OEFC. In addition, the CEO ensures that the OEFC's policies and procedures remain relevant and effective.

The Corporation does not have employees, although some Ontario Financing Authority employees are designated as officers for executing agreements and other documents on the Corporation's behalf. The Ontario Financing Authority carries out the Corporation's day-to-day operations under the supervision of the CEO and the Board. In addition, the Act provides that OEFC is entitled to receive certain payments, which are collected for the benefit of OEFC by the Tax Revenue Division of the Ministry of Revenue.

Financial Reporting

The OEFC prepares annual financial statements in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The financial statements are reviewed and recommended by the Audit Committee and approved by the Board of Directors. Unaudited financial statements are prepared quarterly and presented to the Audit Committee and the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly and in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. The findings are reviewed by the Audit Committee and the Board of Directors. These audited financial statements are tabled in the Ontario Legislature as part of the OEFC's Annual Report and are included as a schedule to the Public Accounts of the Province.

Internal Controls

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

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

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

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

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on its risk assessment and input from the OEFC Audit Committee and OEFC management. The internal audit plan is presented for review and approval by the OEFC Audit Committee. The Internal Audit Division reports to the OEFC Audit Committee on the results of their audit work in the OEFC.

Board of Directors

Peter Wallace	Chair and Deputy Minister of Finance Appointed September 2008
Gadi Mayman	Vice-Chair and Chief Executive Officer Appointed August 2000
Bruce L. Bennett*	Assistant Deputy Minister, and Provincial Controller Ministry of Finance Appointed August 2006
Frank Denton**	Assistant Deputy Minister, Policy and Consumer Protection Services Division, Ministry of Government and Consumer Services Appointed August 2006***
Serge Imbrogno	Assistant Deputy Minister, Corporate and Electricity Finance Division, Ontario Financing Authority Appointed April 2008
Mahmood Nanji	Assistant Deputy Minister Assistant Deputy Minister, Nuclear New Build Secretariat, Ministry of Energy and Infrastructure Appointed August 2006
Nancy Naylor**	Assistant Deputy Minister, Elementary-Secondary Business and Finance Division, Ministry of Education Appointed August 2006
Bohodar Rubashewsky	Assistant Deputy Minister, Corporate Development and Gaming Division, Ministry of Energy and Infrastructure Appointed August 2006
Saad Rafi	Deputy Minister of Energy and Infrastructure Appointed September 2008

* Chair, Audit Committee
** Member, Audit Committee
*** Appointment expires in August 2009

Risk Management Policies and Procedures

Overview

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

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

The Board and management committees establish and approve risk management policies and monitor the performance of the Ontario Financing Authority's capital market activities related to the Corporation.

Market Risk Policy

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

- **Foreign Exchange Limit** — unhedged foreign currency exposure is limited to 5 per cent of outstanding debt. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc (including the Euro)
- **Net Interest Rate Resetting Limit** — the interest rate resetting exposure, net of liquid reserves, is limited to a maximum of 35 per cent of outstanding debt
- **Management Trigger Level** — to prevent a potentially large loss resulting from capital market transactions, the annual Financing, Debt and Electricity Management Plan establishes an aggregate loss trigger level, covering both the Province and OEFC.

Credit and Related Legal Risks Policy

Credit risk is the risk that a counterparty defaults on its financially contracted obligations. Credit risk arises when the OFA undertakes financial and derivative transactions on behalf of the Corporation. The minimum credit rating of a new counterparty for swap transactions is AA– and R1-mid, A-1 or P-1 for money market investments. The resulting exposure to a financial counterparty is capped at mark-to-market limits depending on the counterparty's credit rating and capital base.

Policy on the Use of Derivatives and Financial Instruments

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

Operational Risk

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

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

Policy on Risk Management Reporting
At its regular quarterly meetings, the Board of Directors is kept informed of the Corporation's activities:

- The CEO of the OFA provides the Corporation's Board with a progress report on the implementation of the Annual Financing, Debt and Electricity Management Plan, staffing and other administrative and operational matters. The CEO also reports on compliance with applicable government directives.
- The Director, OFA Risk Control Division, reports on program exposures and performance, as well as exceptions to policies.

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

Additional Sources of Information

Internet Links

Ontario Electricity Financial Corporation	www.oefc.on.ca
Ontario Financing Authority	www.ofina.on.ca
Ministry of Finance	www.fin.gov.on.ca
Ministry of Energy and Infrastructure	www.mei.gov.on.ca
Ontario Power Generation Inc.	www.opg.com
Hydro One Inc.	www.hydroone.com
Independent Electricity System Operator	www.ieso.com
Ontario Electrical Safety Authority	www.esainspection.net
Ontario Power Authority	www.powerauthority.on.ca

Inquiries

For general information and additional copies of this Annual Report, please contact the OEFC at:

Telephone: (416) 325-8000

E-mail: investor@oefc.on.ca

OEFC

ONTARIO ELECTRICITY FINANCIAL CORPORATION

www.oefc.on.ca

1 Dundas Street West, Suite 1400
Toronto, Ontario
M7A 1Y7
Canada

Telephone: (416) 325-8000

investor@oefc.on.ca
www.oefc.on.ca

Ontario

Ontario Electricity Financial Corporation

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