Ontario Electricity Financial Corporation

www.oefc.on.ca BULLETIN November 30, 2000

OEFC FINANCIAL HIGHLIGHTS: APRIL 1, 1999 TO MARCH 31, 2000

First Year of Operations

The past few years were marked by changes in Ontario's electricity sector, culminating with the restructuring of Ontario Hydro on April 1, 1999 into five successor corporations. The Ontario Electricity Financial Corporation (OEFC) emerged from the restructuring as the legal continuation of Ontario Hydro.

In its first year of operations, the OEFC succeeded in establishing the necessary policies and practices to carry out its mandate of managing the debt and certain other assets and liabilities of the former Ontario Hydro until they are retired or defeased. The Ontario Financing Authority (OFA), the Ontario Electricity Pension Services Corporation (OEPSC) and the Ministry of Finance provide the OEFC with the staff and expertise needed to fulfill its mandate.

1999-00 Operating Results

Highlights from the past year:

- Revenue of $3,330 million, including: $1,118 million in interest from Hydro One (HOI), Ontario Power Generation (OPG), the Independent Electricity Market Operator (IMO) and the Province; $889 million from payments-in-lieu of tax; $741 million from power sales; $172 million from a proxy debt retirement charge; and, $383 million from electricity sector dedicated income.
- Expense of $3,884 million,including: $2,785 million in interest on debt and nuclear risk funding; $180 million in amortization of deferred debt costs; $744 million for power purchases; and, $156 million debt guarantee fee.
- Consistent with generally accepted accounting principles, the excess of expense over revenue of $554 million was added to the unfunded liability, moving unfunded liability to $19,987 million on March 31, 2000.

Management of Power Purchase Contracts

In May 1999, the Ministry of Finance established a committee to advise on the management and disposition of OEFC power purchase agreements with non-utility generators (NUGs). In October 1999, the committee presented its recommendations. Based in part on these recommendations, the OEFC announced that it would not proceed with the Request for Expressions of Interest for contract buyouts issued previously by Ontario Hydro. The OEFC recently issued a Request for Proposals (RFP) to retain a contract manager to manage the NUG contracts. Enron Canada Corp. was selected as the successful respondent to the RFP.

Stranded Debt and Residual Stranded Debt

Stranded debt is defined by the *Electricity Act, 1998* as "the amount of debt and other liabilities of the OEFC, that, in the opinion of the Minister of Finance, cannot reasonably be serviced and retired in a competitive electricity market."

On April 1, 1999, the Ministry of Finance estimated stranded debt to be $20.9 billion, representing total debt and liabilities of the former Ontario Hydro of $38.1 billion less the value of Ontario Hydro successor corporations of $17.2 billion. The opening Unfunded Liability ("stranded debt") of $19.4 billion of the OEFC is comprised of these liabilities of $38.1 billion less notes receivable above of $17.2 billion, less other loans receivable of $200 million, less other assets of $1.3 billion. Residual Stranded Debt, the amount of stranded debt remaining after accounting for the present value of future dedicated revenue streams from the electricity sector, was estimated to be $7.8 billion.

Residual Stranded Debt will be serviced through a Debt Retirement Charge (DRC). The DRC will be collected when the market opens to competition, currently expected sometime in 2001. In the interim, the OEFC is a party to a revenue allocation agreement among sucessor entities, and is entitled to the residual amount in the revenue pool after costs of OPG, IMO, HOI and the Electrical Safety Authority (ESA) are paid. This amount is reflected as a proxy DRC.

1999-00 Financing Program

Cash flow required by operations totalled $869 million in 1999-00. This cash requirement, combined with maturing debt of $1,670 million, was financed by total borrowing of $2,522 million in 1999-00. The cash shortfall was anticipated and is consistent with the Province's electricity sector restructuring plan. The plan provides for sufficient revenues from the electricity sector to defease OEFC's debt within a reasonable timeframe.

As the OEFC does not have its own credit rating, the Province, through the OFA, borrows on the OEFC's behalf. In turn, the OEFC issues debt to the Province.

To meet its 1999-00 financing requirements, the OEFC raised $1.8 billion in long-term debt and increased short-term debt by $0.7 billion. All of the financing in 1999-00 was raised in the Canadian dollar market, including:

- $1.5 billion from three domestic issues;
- $0.4 billion from two Euro-Canadian issues; and
- $0.7 billion in short-term Ontario treasury bills, $0.3 billion of which was swapped to long-term fixed-rate financing.
- The OEFC also bought back $0.1 billion of outstanding debt and replaced it with more cost-effective issues.

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2000-01 Financing Requirements

With maturing debt of $3.2 billion and a projected cash surplus of $1.0 billion in 2000-01, total financing requirements are projected at $2.2 billion (as of June 30, 2000). Total debt outstanding of $31.3 billion (as of March 31, 2000) is projected to be reduced by $1.0 billion as of March 31, 2001.

The Province will continue to borrow on behalf of the OEFC in 2000-01. It is expected that the domestic market will remain the Province's core market.

	1999-00 Actual	2000-01 Projection
Financing Requirements		
Cash Requirements/(Cash Surplus)	0.9	(1.0)
Maturing Debt	1.6	3.2
Debt Buybacks	0.1	—
Total Financing Requirements	2.6	2.2
Financed By		
Increase in Short-term Debt	0.7	—
Long-term Debt Proceeds	1.8	2.2
Debt Issued for Debt Buybacks	0.1	—
Total Financing	2.6	2.2

June 30, 2000

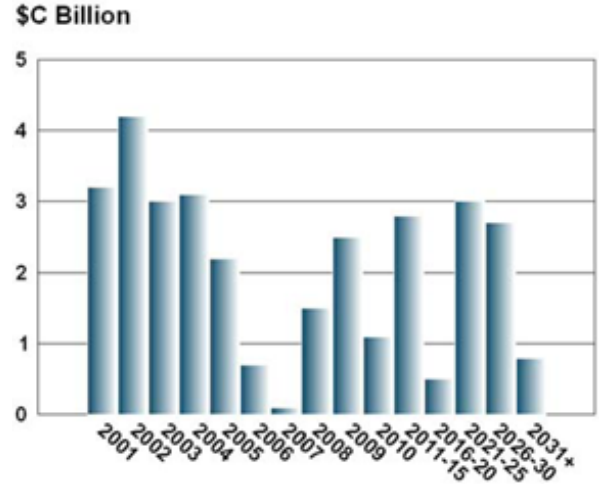
Risk Management Policies

The OEFC has a number of policies and practices in place to manage the financial risks it is exposed to through its borrowing and debt management activities.

Foreign Exchange Exposure:
The OEFC target for unhedged foreign currency exposure by the end of fiscal 2000-01 is 5 per cent of outstanding debt. When the OFA took over the management of the OEFC's debt portfolio, total debt exposed to fluctuations in foreign currencies was 14.5 per cent. The OFA has reduced the OEFC's exposure to 8.0 per cent as of March 31, 2000. The OFA will continue to reduce the level of exposure towards the 5 per cent target in a prudent manner.

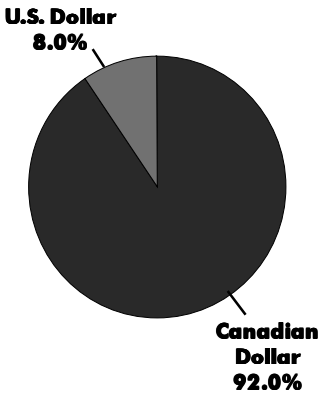
Floating Rate Exposure:
The floating interest rate exposure limit is 20 per cent of debt outstanding, net of liquid reserves. Actual floating interest rate exposure was 7.6 per cent as of March 31, 2000.

Publicly Held Debt Maturity Schedule
(March 31, 2000)

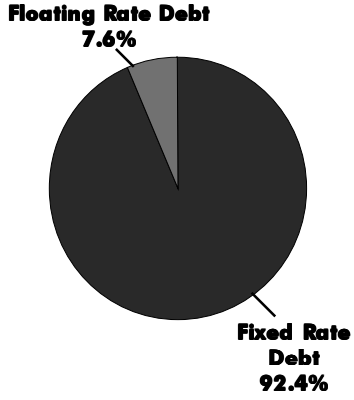


When issuing new debt, the OFA, on behalf of the OEFC, will aim for a smooth debt maturity profile to diversify the interest rate risk for the refinancing of maturing and floating rate debt.

Foreign Currency Exposure
(as of March 31, 2000)



Floating Rate Exposure
(as of March 31, 2000)



Additional Information

A full set of 1999-00 OEFC financial statements can be found in the 2000 OEFC Annual Report at **www.oefc.on.ca.**

Contact (416) 325-8000 to receive a hardcopy of the report.