

From: [Ken Kandeepan](#)
To: [Gadi Mayman](#)
Cc: [Christina Zhang](#)
Subject: FW: EXTERNAL - Provincial Guarantee
Date: Thursday, March 16, 2017 2:46:41 PM

Hi Gadi

I did a little more digging on the guarantee. OPG's expectations as per Ken Hartwick's email below and their White Paper on the issue; a guarantee from the Province is only required in the event of successor government(s) overturning the model and thus eliminating OPG's ability to pay down the debt.

You, on the other hand is positing that this kind of contingent guarantee is no different from a blanket version and if it is no different, then OPG's GBE status should not be impacted by implementing the most cost effective approach which is debt funding from the Province, either as loans or as the sole purchaser of OPG paper.

As I mentioned in our conversation I did raise the issue of the guarantee with Cindy, however, I did not phrase it as clearly or as starkly as above. Will do so when I meet next week and see if a discussion with Michelle Picard, the E&Y partner is worthwhile.

Thanks

Ken K

From: Gadi Mayman
Sent: Monday, February 27, 2017 1:04 PM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>
Cc: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>
Subject: FW: EXTERNAL - Provincial Guarantee

Here's Ken's response, and my follow-up question to him as to why we can't do the borrowing to reduce the cost to ratepayers.

From: Gadi Mayman
Sent: Monday, February 27, 2017 1:02 PM
To: 'HARTWICK Ken -FINANCE' <ken.hartwick@opg.com>
Cc: 'cindy.veinot@ontario.ca' <cindy.veinot@ontario.ca>; MAUTI John -FIN & C CTRL <john.mauti@opg.com>
Subject: RE: EXTERNAL - Provincial Guarantee

Thanks, Ken. The challenge that many on our side of the table have, including me, is that given the interest rate sensitivity of this program, we'd like to squeeze whatever excess costs we can out of it, and if we're guaranteeing the debt anyhow, why pay third party investors a premium?

I realize that the guarantee is, for now, only related to legislative changes, but that's the most likely, by far, potential point of failure of this structure, so I'd suggest that the risk transfer to third party investors is pretty limited if we have this guarantee. That being the case, I'm having trouble seeing why direct borrowing on on-lending by the Province would be treated differently from an accounting perspective than this guarantee would be, and am still wondering why we wouldn't be able to do the borrowing on your behalf?

From: HARTWICK Ken -FINANCE [<mailto:ken.hartwick@opg.com>]
Sent: Monday, February 27, 2017 12:49 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: 'cindy.veinot@ontario.ca' <cindy.veinot@ontario.ca>; MAUTI John -FIN & C CTRL <john.mauti@opg.com>
Subject: RE: EXTERNAL - Provincial Guarantee

We are looking at this now but I do not think we get a different accounting inclusion. The guarantee would not be related to performance of the trust but rather a material legislative change that would allow the trust to collect the GA and fulfil its obligations. We are looking at this now but believe the accounting works with this as one element of a 14 element test and focused on a specific change. We may issue over the paper for 130 and then need to confirm my view.

From: Gadi Mayman [<mailto:Gadi.Mayman@ofina.on.ca>]
Sent: Monday, February 27, 2017 12:45 PM
To: HARTWICK Ken -FINANCE
Cc: 'cindy.veinot@ontario.ca'
Subject: EXTERNAL – Provincial Guarantee

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Hi Ken, we all had to rush off to our next meetings following our meeting this morning, so we didn't get a chance to have a discussion about why a Provincial guarantee of all of OPG's debt related to the trust isn't a problem for the accounting treatment that we'd need to get to in order to make the GA smoothing plan work, while direct borrowing and on-lending from the Province would be, if it's greater than 49% of the total borrowing (actually 44% in your current

model).

From a capital markets, investor and rating agency perspective, the guarantee is extremely likely to be lumped in with the rest of the Province's debt, and the guaranteed debt would be considered just as much of a provincial obligation as the rest of our debt, particularly in this case where the reason that the guarantee is needed is because investors will demand it in order to protect themselves from legislative amendments by a future government. For that reason, it could be hard to justify, from a capital markets or cost perspective, having OPG borrowing in its own name with a government guarantee, so is it possible to revisit the potential accounting treatment and determine whether, now that we've effectively moved to a guaranteed structure, we could just have the Province, through the OFA or OEFC, do all of the borrowing and on-lend to OPG? Is this something that you'd been planning to address in the accounting material that you're sending over today?

Thanks,
Gadi

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From: [Christina Zhang](#)
To: [Sarah Neville](#)
Subject: FW: OEFC BP
Date: Wednesday, March 01, 2017 5:17:20 PM
Attachments: [OEFC 2017-20 Business Plan.pdf](#)

OEFC BP done!

From: Christina Zhang
Sent: Wednesday, March 01, 2017 5:17 PM
To: Alena Ingram (MOF) <Alena.Ingram@ontario.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bridget Jeanes (MGS) <Bridget.Jeanes@ontario.ca>; Cho Khong (MOF) <Cho.Khong@ontario.ca>
Subject: OEFC BP

Hi Alena,

Please find attached the OEFC 2017-20 Business Plan. The attached have been approved by the OEFC BOD on February 23rd.

We'll send over PDFs of the signed memo and blue sheet on Friday, if that's okay.

Regards,
Christina

Christina Zhang

(A) Executive Assistant and Special Policy Advisor to the CEO
Ontario Financing Authority
416.325.8032



2017-20 BUSINESS PLAN

Approved by the Board of Directors

February 23, 2017

Date

Approved by the Minister of Finance

Signature
The Honourable Charles Sousa
Minister of Finance

Date

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Executive Summary

The Ontario Electricity Financial Corporation (OEFC, or the Corporation) is responsible for the management of the debt and certain other liabilities of the former Ontario Hydro. The OEFC assumed approximately \$38.1 billion in debt and other liabilities of the former Ontario Hydro when it was restructured on April 1, 1999. A portion of the \$38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving \$20.9 billion of “stranded debt” not supported by those assets (and an initial unfunded liability of \$19.4 billion, when taking into account other OEFC assets as at April 1, 1999).

As at March 31, 2016, total debt and liabilities amounted to \$25.1 billion, and OEFC’s unfunded liability was reduced to \$4.4 billion. And, based on the Province’s 2016 Budget projections for OEFC in 2016-17, the OEFC projected excess of revenue over expense of about \$0.6 billion would further reduce the unfunded liability by that amount, which would mean 2016-17 would be the thirteenth consecutive year that the stranded debt has been reduced.

Overview of 2016-17 Results

The Ontario Electricity Financial Corporation (OEFC) accomplished the following key objectives presented in its 2016-19 business plan.

1. Manage debt and other liabilities cost-effectively
 - Continued to manage OEFC’s debt and other liabilities, with debt outstanding of \$23.0 billion as at October 31, 2016.
 - The Corporation’s projected results are for a continued reduction in the unfunded liability in 2016-17, by an estimated \$0.6 billion, even as OEFC has had to manage with reduced revenues from the Debt Retirement Charge (DRC) as the 2016-17 is the first full year of the elimination of the DRC for residential customers.
2. Manage financial risk within approved policy limits
 - Maintained a zero foreign exchange exposure on outstanding debt principal and maintained net interest rate resetting exposure within policy limits.
3. Manage and administer the OEFC power supply and demand management contracts
 - In 2016-17, to the end of October, achieved \$12.8 million in cost-savings through curtailments.
 - Continued to manage and implement a contract with the Independent Electricity System Operator (IESO) in support of its Industrial Electricity Incentive (IEI) demand management program.
 - Supporting an IESO initiative, under which the IESO was complying with a direction from the Minister of Energy, OEFC terminated three and suspended two gas-fired non-utility generator (NUG) power purchase agreements (PPAs). This allowed those NUGs to enter into curtailment agreements with the IESO that provide an incentive to NUGs to operate in a manner that is better aligned with the integrated power system’s needs, reducing OEFC costs, costs to ratepayers, and lowering carbon emissions.

4. Provide financial assistance, as required, to the Ontario Hydro successor corporations
 - Continued to monitor and implement financial assistance from OEFC to Ontario Power Generation (OPG), including a \$700 million credit facility up to December 31, 2017, for the purpose of financing general corporate purposes, including the Darlington refurbishment project. This credit facility is expected to be increased to \$1.5 billion up to December 31, 2017, with further availability thereafter until December 31, 2018.
 - Continued to monitor and provide analysis and advice on the credit facility between the IESO and the OEFC.
5. Support the implementation of the government's electricity industry policies and determine the impact on the OEFC
 - Continuing to support the IEI program.
 - Projections for 2016-17 in Budget 2016 show an excess of revenue over expense of about \$0.6 billion, which would reduce the Corporation's unfunded liability (or stranded debt) to below \$4 billion. This would be the thirteenth consecutive annual decline in the unfunded liability.
 - Provided support for the implementation of the government's policy on broadening Hydro One ownership, including the dedication of proceeds related to the book value of shares sold towards paying down the Province's electricity sector debt and other payables with OEFC and financial benefits provided by the Province to OEFC as per section 50.3 of the *Electricity Act, 1998*.

Key Objectives for 2017-2020, consistent with its mandate letter from the Minister of Finance, include the following:

- Manage debt and other liabilities cost-effectively.
- Manage financial risk within approved policy limits.
- Manage and administer the non-utility generator (NUG) contracts and demand management contracts.
- Manage and administer a contract with IESO in support of its Industrial Electricity Incentive (IEI) demand management program.
- Provide financial assistance, as required, to the Ontario Hydro successor corporations.
- Support the implementation of the government's electricity industry policies and determine the impact on the OEFC.

Governing Legislation and Mandate

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): Ontario Power Generation Inc. (OPG), Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and the OEFC.

Pursuant to the Act, the OEFC's mandate includes the following:

- Managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro.
- Managing the former Ontario Hydro's NUG contracts.

- Receiving all payments and administering other assets, liabilities, rights and obligations of the former Ontario Hydro 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 and a distributor owned or controlled, directly or indirectly, by Her majesty the Queen in Right of Ontario and licensed by the Ontario Energy Board.
- Entering into financial and other agreements relating to electricity supply or management of electricity demand, in Ontario.
- Performing any additional objects as specified by the Lieutenant Governor in Council.

Strategic Directions and Performance Measures

1. Manage Debt and Other Liabilities Cost-Effectively

Objective	Performance Measure	Targets
Manage financing requirements in a sound and efficient manner. The OEFC manages the debt and liabilities of the former Ontario Hydro, with total debt of \$24.3 billion as at March 31, 2016. The 2017-18 Financing, Debt and Electricity Management Plan for the Province and the OEFC will detail strategies and operational objectives on how the OEFC will manage its debt portfolio. The plan will reflect considerations such as investor demand, market structure, interest rate outlooks, OEFC cash flows and debt maturity constraints.	For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. Performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The OEFC has existing long-term debt maturities totalling \$2.1 billion, \$0.7 billion, and \$1.4 billion in 2017-18, 2018-19 and 2019-20 respectively. The requirement for refinancings or new borrowings will take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One, as well as any loan requirements from OPG. The strategy for OEFC's borrowing requirement will be presented in the 2017-18 Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by Internal Audit Division.
Working with OPG and Hydro One to effectively manage claims against OEFC and Hydro One or OPG relating to the former Ontario Hydro's federal permits and related facilities on First Nation Reserves ("Permit Claims"). (Hydro One and OPG maintain most of these facilities; however, in some cases, legal title remains in OEFC as the continuation of Ontario Hydro.)	Permit Claims are defended or settled without liability to OEFC. OEFC is released from liability relating to Permit Claims.	OEFC is not required to make any payments under any judgement or settlement of a Permit Claim. All settlements of Permit Claims by Hydro One/OPG also include a release of OEFC.

2. Manage Financial Risk within Approved Policy Limits

Objective	Performance Measure	Targets
Manage the debt portfolio within exposure policy limits. Exposures are expected to remain within policy limits throughout 2016-19.	The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.
Setting risk management policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for Market Risk, Credit Risk, Use of Derivatives and Other Financial Instruments, and Risk Management Reporting are regularly reviewed and updated annually. Interest and FX rate exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Objective	Performance Measure	Targets
Minimize NUG costs to ratepayers by utilizing arrangements such as curtailment or incremental power transactions.	The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.
Negotiate any necessary revisions to the NUG contracts.	Successful negotiation of revisions to the contracts necessary to ensure that the contracts are consistent with the current electricity market environment and government policy. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy.
Provide effective administration of NUG power purchase agreements (PPAs).	Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee the performance of the meter service provider under contract to OEFC, to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing contract terms, electricity market rules and standards.	Maintain and improve operational systems, applications and infrastructure as required. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Provide operational and market settlement information and advice in support of legal proceedings, renegotiation of contracts and energy curtailments as required.

Objective	Performance Measure	Targets
Administer the OEFC's obligations to provide the IESO support for its DRC offset payments made under the IEI demand management program.	Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Objective	Performance Measure	Targets
Facilitate the cash flow requirements of the successor corporations.	Review and analyze requests from successor companies to ease cash flow constraints. Review and analyze requests from OPG to provide flexibility in debt term structure.	Provide and monitor credit facilities to OPG and IESO, as needed, for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required, including greater access to 30-year borrowing for OPG.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Objective	Performance Measure	Targets
Monitor the financial performance of the successor electricity corporations. Monitor, review and respond to developments and/or government policy initiatives in the electricity sector.	Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the DRC, payments in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and continue to monitor and analyze Hydro One's financial results. Meet operational requirements on a timely basis to implement the government's policy initiatives. Provide analysis and advice on the financial impacts on OEFC from broadening ownership of Hydro One.

Objective	Performance Measure	Targets
Timely and accurate financial reporting.	Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Continue to review the long-term OEFC model.
Implement Directives from the Minister of Finance.	Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.

Risk Identification, Assessment and Mitigation Strategies

Risk Category: STRATEGIC				
RISK AREA: Strategic/ Policy/ Performance Risk: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with OPS policies). The risk that strategies and policies fail to achieve required/ targeted results. The risk of not providing value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence / Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Electricity Policy Changes	Government policy changes that could result in additional responsibilities for the OEFC, or have a net impact on OEFC through changes in cash flows or dedicated revenues to OEFC.	Medium / Medium	Medium	Monitor, assess and respond to developments in support of the government's electricity plan. Corporate and Electricity Finance Division (CEFD) provides financial, fiscal impact and policy analysis and advice to the Deputy Minister and Minister of Finance on the electricity sector, including the fiscal impacts on the Province of proposed government policies. CEFD staff also provide on-going financial and fiscal impact analysis to other divisions in the Ministry of Finance and TBS, including OTB, OPCD, OB, OEP, TPD, and CQSD. CEFD and OFA staff support the OEFC by providing financial analysis and advice to the Deputy and Minister to inform government's policy making process, including advice on fiscal impacts from the impact on OEFC and pay down of the stranded debt and potential cost recovery from the rate base.
Strategic Planning (Annual Business Plan)	Strategies and policies fail to achieve required results.	Low/Medium	Medium	A three-year OEFC business plan is approved by the Minister of Finance and OEFC's Board of Directors. Quarterly progress reports are provided to the OEFC's Board and reporting on the achievement of strategic objectives for the previous fiscal year is included in the business plan.

				OEFC monitors the electricity sector environment and provides analysis and advice on policy options which could directly or indirectly have an impact on OEFC and relevant stakeholders. The Ministry of Finance will be consulted before any change is made to OEFC's strategic direction or programs that require ministry and/or TB/MBC approval. The Financing, Debt and Electricity Management Plan for OEFC is developed based on in-depth research and analysis and is adjusted throughout the year as conditions change. The Audit Committee (AC) of the Board works with Ontario Internal Audit Division to ensure that the annual OEFC audit plan allows for the auditors to assist with program design and provides for audits of any high risk aspects of programs.
Meeting Stakeholder Expectations	The risk that OEFC may fail to meet stakeholder expectations, including those of the Province and other public bodies.	Low/Medium	Medium	OEFC manages the former Ontario Hydro's debt and administers the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities, including the Non-Utility Generator contracts, and provides financial assistance to the successor corporations of Ontario Hydro. OEFC is available to meet with any OEFC electricity contract counterparty as required. OEFC senior management maintains regular and frequent contact with the Deputy Minister's Office, the Deputy Minister of Energy and the OEFC Board. This is complemented through quarterly board meetings chaired by the Deputy Minister of Finance and annual reporting to the Minister of Finance through the Business Plan and the Annual Report. OEFC's reporting to external stakeholders is through posting on its website the Business Plan and publishing the Annual Report, and its annual financial statements are included in the Public Accounts of the Province. The OEFC also maintains and updates a website accessible to external stakeholders.

Financial Market Risk	Higher-than-forecast interest rates resulting in higher annual financing charges.	Low/Medium	Low	Manage net interest rate resetting exposure. Diversify the borrowing program by managing its pace and the debt maturity profile. The broadening of ownership of Hydro One has resulted in a significant cash inflow to OEFC to date and as projected. As such OEFC is projected not to engage in borrowing to fund maturing debt in 2016-17 and most likely in the two out years.
Credit Risk	The risk that counterparty defaults on its obligations arising from financial and derivative transactions.	Low/Medium	Low	Reduce exposure to external counterparties with a credit rating of single-A, and lower by using standard credit mitigation techniques, including the possible execution of collateral agreements, re-couponing and terminations. Entities with high potential exposures relative to credit limits will be used sparingly when initiating new swaps. The OEFC's exposure to external counterparties is minimal and will no longer exist post 2016-17 when all derivate contracts with all external counterparties expire.
Dedicated Revenues of the Electricity Sector to OEFC	The amount of dedicated revenues to OEFC affect stranded debt pay down.	Medium/Medium	Medium	OFA/CEFD staff receive and review OPG business plans and monthly financial updates and Hydro One's publicly available financial information and provide projections and analysis, as well as potential options, to the government and OEFC. Monitor and assess the impacts of Hydro One rate applications and decisions, and public financial reporting information. Monitor MEU PILs cash flows and MEU financial statements. OFA jointly manages the nuclear funds. Diversify the nuclear funds investment portfolio globally using a variety of fund managers in different sectors.

Risk Category: ACCOUNTABILITY/GOVERNANCE

RISK AREA: Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, MOU or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Meeting statutory requirements	Risk of non-compliance with statutory requirements	Low/Medium	Low	MOF/OFA Legal Branches, as applicable, advise of statutory changes affecting OEFC operations and key directives are distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO. Non-compliance with applicable laws or regulations would also be reported to the Board quarterly (or sooner, depending on the severity). CEO/Board direct remedial action (which may include training). Ministry/MGS HR personnel would advise on any disciplinary action.
Reliability of financial systems	The risk that the OEFC's financial information and reporting system (through the OFA) is not reliable or fails to meet quality standards.	Low/Low	Low	The OEFC has well-established processes and procedures for monitoring and reporting on its financial performance to its Audit Committee, Board of Directors and to the Ministry. OEFC financials are prepared on a quarterly basis for discussion and approval by the OEFC Audit Committee and Board of Directors. Changes to accounting pronouncements are also addressed during the quarterly discussions. Annual budgets and audited financials are submitted to the ministry as per TBS requirements. Internal controls and financial systems are assessed by both the staff of the Office of the Auditor General and the Province's Internal Audit Division on an annual basis. So far no material issues have been identified.
First Nations Litigation	OEFC, as a legal successor to Ontario Hydro, is at risk of being named in First Nations lawsuits.	Low/Medium	Medium	OEFC is indemnified by OPG and/or Hydro One for any liability in relation to the matters raised in these lawsuits.

NUG litigation	OEFC, as a legal successor to Ontario Hydro, is party to lawsuits by non-utility generators (NUGs) relating to their power purchase agreements (PPAs) originally entered into with Ontario Hydro.	High/Low	Medium	OEFC administers these claims based on appropriate legal advice. The risk is reduced as PPAs expire/terminate. The impact on OEFC is mitigated by legislative amendments in 2005, under which OEFC fully recovers its NUG contract costs through the Global Adjustment. Any costs paid by OEFC are passed through to consumers through the Global Adjustment.

Risk Category: OPERATIONAL

RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Operational Risk	Risk of not effecting settlement of electricity transactions and payments to the NUGs, or other contract counterparties, conducted by the OEFC since January 1, 2005.	Low/Low	Low	Systems, procedures and controls have been in place and continuously improved since inception and staff are adequately trained, with no significant issues.

Risk Category: WORKFORCE				
RISK AREA: Workforce: Operational Workforce Risks				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Collective Agreements/ Worker Compensation/ Salary Settlement Costs	Retention of key skill sets and staff for the roles and competencies they provide to OEFC. Without a unique compensation plan, with base compensation established to ensure retention of key skill sets for Capital Markets and certain Risk Control staff, the OFA would be severely limited in its ability to retain existing staff and would face a near impossible task of attracting external qualified candidates.	Low/High	Medium	Work to achieve and/or maintain the ability, or utilise the available scope, to compensate staff fairly and in comparison to competitors to limit turnover, and in accordance with applicable legislation or compensation directives.

	Compensation for most other OFA positions supporting OEFC are tied to the OPS Management Compensation Plan, which may limit the OFA's ability to attract and retain staff with the required skill sets.			

Risk Category: INFORMATION TECHNOLOGY AND INFRASTRUCTURE

RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Privacy and security	Does the agency handle sensitive/confidential information on behalf of the government? How does the agency reduce the potential compromise of personal data through	Low/Medium	Low	Access to all electronic data requires some form of authentication. Security of electronic and hard copy information is provided by key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a yearly basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply.

	identity theft, or unauthorized electronic or physical access of information?			OFA Trading Restrictions and Disclosure Requirements Policy is provided to OFA staff, along with any additional direction as required (e.g., Hydro One transactions).
Business continuity	What are the processes in place to ensure that critical I&IT systems are available for operation to support business requirements (disaster recovery & business continuity planning)?	Low/Low	Low	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's disaster recovery (DR) site. Critical production systems are routinely run out of the DR site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes remote equipment, remote access services and mobile telephones. Internal Audit Division is conducting an audit of the OFA BCP.

Risk Category: OTHER

RISK AREA: Other Risk: Risk that does not fit in any of the above categories. Corporate Social Responsibility concerns – Environment, Climate Change, Energy Management, Health Promotion, Waste Reduction, Fair Trade practices. Organizational Assets – Facilities and Equipment, Personal Safety, Physical Security. Issues relating to third parties that are involved with the agency such as service or goods providers.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy

Additional risks	How does the agency ensure that consideration of financial risk is an ongoing exercise within the agency; i.e., the potential costs of relationships with third party service providers or suppliers?	Low/Low	Low	As part of procuring service providers and supplies, the OFA's procurement policy requires identification of the cost of the contract over the term, including renewals and consideration of other options.

Environmental Scan: Assessment of Issues Facing the OEFC

Factors that could affect OEFC meeting financial projections or core corporate objectives are described below.

External Factors

- The financial performances of OPG and Hydro One affect OEFC revenues relating to
 - i) the electricity sector dedicated income from the Province, which is the Province's combined net income from OPG and Hydro One in excess of the Province's interest costs of its investment in its electricity subsidiaries, and
 - ii) OPG payments in lieu of taxes (PILs) to the OEFC, and payments to OEFC in respect of Hydro One Inc. provincial corporate income taxes.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through MEU PILs to the OEFC.
- The Ontario Energy Board's (OEB) decisions on regulated rates, including the allowed return on equity, may affect projected OPG and Hydro One's financial performance and MEU PILs.
- Additional financial assistance to OPG may be required in the future, including debt maturity refinancing and new loans.
- The Province's progress in broadening Hydro One ownership will affect the OEFC's dedicated income from the Province related to Hydro One. The dedication of certain proceeds from Hydro One share offerings may affect OEFC's cash flows, refinancing requirements and debt interest costs.

Economic conditions and electricity demand:

- Economic conditions, industrial activity, and higher/lower electricity demand have an impact on the OEFC through net incomes of OPG, Brampton Distribution Holdco Inc. and Hydro One, Hydro One provincial CIT, OPG and MEU PILs, and Debt Retirement Charge (DRC) revenue. An economic downturn/recovery would tend to decrease/increase electricity demand.
- Electricity demand lower than projections in regulatory filings could result in lower revenues for OPG, Hydro One and MEUs in the absence of recovery through variance accounts. In addition, lower demand could trigger curtailments for hydroelectric and nuclear production, potentially resulting in a negative financial impact to OPG if these costs are non-recoverable in rates.
- Lower electricity consumption also results in lower DRC revenues.
- Economic conditions may affect pension costs for OPG and Hydro One. Any pension costs not recovered through electricity rates or deviating from forecasts without recovery through variance accounts would lead to reductions in earnings of OPG and Hydro One.

Financial markets:

- Soft inflation and slowing growth led the Bank of Canada to cut the target overnight rate by 50 basis points in 2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.
- In the United States, the Federal Reserve raised rates for the first time since 2006 at its December 2015 meeting, and again on December 14, 2016, citing a solid labour market and expectations for inflation to rise, in the medium-term, towards its 2 per cent target as reasons for the hike. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, the European Central Bank in January 2017 announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time."
- According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018..
- The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Changes to the government policy environment can affect OEFC revenues and expenses:

- Changes in corporate tax rates would affect OEFC's current and projected future payments-in-lieu of tax revenues to OEFC from OPG and MEUs and current and projected future payments of Hydro One provincial corporate income tax allocated by the Province.
- The government has acted on the Premier's Advisory Council on Government Assets' recommendation of broadening Hydro One's ownership with an initial public offering of approximately 15 per cent as well as a secondary offering of an additional 14 per cent of shares with plans to undertake subsequent share sales over time, totalling up to 60 per cent of voting securities in Hydro One.
- The government is moving forward with a merger of Hydro One Brampton through a sale to Alectra, a newly merged entity of three urban local distribution companies to contribute to and encourage consolidation in the distribution sector.
- Hydro One has gone forward with acquisitions in the local distribution sector:
 - On August 15, 2016, an agreement was reached for Hydro One to acquire Orillia Power Distribution Corporation from the City of Orillia, Ontario.
- Hydro One Limited announced on October 31, 2016, that its wholly-owned subsidiary Hydro One Inc. completed the purchase of Great Lakes Power Transmission LP, following approval of the transaction by the Ontario Energy Board on October 13, 2016.
- Government policy and implementation in moving forward with these plans could affect OEFC's current and projected revenue streams from the Province, Hydro One and MEUs, and affect OEFC's expenses.

- The Province's plan to broaden ownership of Hydro One affects OEFC revenues and expenses relating to
 - i) the electricity sector dedicated income from the Province, as
 - a) a decrease in Provincial ownership will reduce the Province's share of Hydro One net income, and
 - b) the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will reduce the Province's interest payments to OEFC related to its investment in Hydro One, and
 - ii) the financial benefit as per section 50.3 of the *Electricity Act, 1998* related to the sale of Hydro One shares.
 - iii) interest on debt, as the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will provide OEFC with cash inflows that help reduce borrowing requirements.
- Acquisitions by Hydro One would move the income related to those entities out of the PILs regime, reducing OEFC PILs. Such acquisitions may also increase Hydro One net income, which could increase ESDI to OEFC.
- Government policy that would affect electricity load, up or down, with an increase or decrease in DRC revenue, up to the legislated end date of April 1, 2018, from commercial, industrial and other electricity users, offset by any expense to support load management.

Resources

OEFC has no employees. Since April 1, 1999, pursuant to a directive from the Minister of Finance, the OFA has conducted borrowing and related debt and risk management activities, cash management, banking, accounting, financial reporting, forecasting and other related activities on a cost-recovery basis for the OEFC.

Many OFA staff perform OEFC-related functions; for efficiency reasons, these staff are integrated with OFA business units. The costs of twenty full-time equivalents (FTEs) and associated overhead are fully recovered from the OEFC. OFA positions are generally excluded from collective bargaining as the OFA performs borrowing and investing on behalf of the Province, including the OEFC.

In accordance with a Memorandum of Understanding (MOU) between the OEFC and the Ministry of Finance, an agreed number of FTEs has been allocated to the Ministry of Finance to provide revenue collection and reporting services. Costs of these positions are fully recoverable from the OEFC.

The OFA works closely with the Ministry of Finance's human resources branch to implement and maintain the government's human resource strategies, policies and practices.

Financial Statements and Budget

Proposed Operating Expenditures, Projected Revenues & Funding Requirements

The OEFC is an operational enterprise agency of the Province. It has a legislated requirement to issue audited financial statements for the fiscal year, which are approved by its Board of Directors and to submit these to the Minister of Finance within 90 days after the end of every fiscal year. The financial statements summarize the OEFC's revenues and expenditures and are tabled in the Legislature once approved by the Minister of Finance. The statements are also included in the Public Accounts of Ontario. The financial results of the OEFC are consolidated with those of the Province for Public Accounts and Budget purposes.

The business plan shows the operational costs of the OEFC. The following budget table provides the projected cost of functions performed by the OFA and the Ministry of Finance to be recovered from the OEFC. The OEFC does not undertake any capital expenditures.

	Actual	Interim	Budget		
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Salaries	2,182,877	2,226,534	2,271,065	2,316,486	2,362,816
Benefits	297,665	303,618	309,691	315,885	322,202
	2,480,542	2,530,152	2,580,756	2,632,371	2,685,018
Debt Management Costs	542,909	553,860	564,937	576,236	587,761
Direct Operating Expenses	660,072	673,274	686,739	700,474	714,484
Total OFA Cost Recoveries	\$3,683,523	\$3,757,286	\$3,832,432	\$3,909,081	\$3,987,263
MOF Chargeback for PILS and DRC Audit and Administration Costs	1,800,000	1,800,000	1,800,000	1,900,000	1,900,000
Total Cost Recoveries charged to OEFC	\$5,483,523	\$5,557,286	\$5,632,432	\$5,809,081	\$5,887,263

OFA cost recoveries including debt management costs are in accordance with the MOU between the OEFC and the OFA. Staffing and other out-of-pocket costs expended on the administration, audit and collection of the PILs and the DRC, are recovered by the Ministry of Finance on a quarterly basis in accordance with the respective MOU.

Initiatives Involving Third Parties

OEFC manages and administers electricity contracts with Non-Utility Generators. In its management of these contracts, OEFC may consult with the provincial government and the Independent Electricity System Operator (IESO), and retain external consultants.

OEFC provides the IESO support for its DRC offset payments made under the Industrial Electricity Incentive (IEI) demand management program.

There are no other third parties, other than the provincial government and its agencies, with which the OEFC is partnering or with which it has a funding relationship for the purpose of delivering OEFC programs. Moreover, the OEFC does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

Implementation Plan

For 2017–20, the OEFC intends to implement its business plan using existing resources.

Communications Plan

OEFC updates, including annual reports, bulletins, information for Ontario Hydro bondholders and electricity sector updates can be found on www.oefc.on.ca. Annual financial statements are also available in Volume 2 of the Public Accounts of Ontario. Financial and borrowing updates can be found in the Provincial Budget, the Economic Outlook and Fiscal Review, Ontario's Quarterly Finances and the OFA Bulletin.

The OFA also responds to inquiries from investors about bonds issued by the former Ontario Hydro, as well as inquiries from the public regarding the OEFC and its responsibilities.

Appendix A – Overview of 2016-17 Results

1. Manage Debt and Other Liabilities Cost-Effectively

Performance Measures	Targets	Results
For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The requirement for refinancings or new borrowings to take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One. The borrowing strategy for OEFC will be presented in the Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. (All results are validated by Internal Audit Division.)	There is no borrowing planned for OEFC in the 2016-17 fiscal year. As of January 16, 2017, there has been no borrowing for OEFC.
OEFC works with Hydro One to determine an effective strategy for transfers in cases where new permits are not being issued by the federal government due to backlogs. Meeting this objective is not completely within OEFC's control.	OEFC and Hydro One develop options for transfers where the federal government is not issuing new permits	Decision was made to specifically address in OEFC's agreements with First Nations, the possibility of new permits not being issued.

2. Manage Financial Risk within Approved Policy Limits

Performance Measures	Targets	Results
The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.	As at November 30, 2016: - foreign exchange exposure was 0.03 per cent of outstanding debt; - net interest rate resetting exposure was 4.2 per cent of outstanding debt; - there was no breach of the IOD loss limit or counterparty default; and - all credit exposures were within approved limits.
Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments, and risk management reporting are regularly reviewed and updated. Exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.	Revisions to the OEFC's Credit Risk Policy were approved by the OEFC Board of Directors on April 15, 2016. Revisions to the OEFC's Policy on the Use of Derivatives and Other Financial Instruments, and Risk Management Reporting Policy were approved by the OEFC Board of Directors on September 23, 2016. Revisions to the OEFC's Market Risk Policy were approved by the OEFC Board of Directors on December 16, 2016. NIRRE and FX exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures and results are reported to the BSC.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Performance Measures	Targets	Results
The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment, incremental power and other arrangements with the NUGs while protecting the interests of the ratepayers.	From April 1, 2016 to October 31, 2016, savings from curtailments totalled \$12.8 million. Worked with IESO in coordinating curtailments in response to surplus baseload generation.
Successful negotiation of any necessary revisions to the contracts. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy. Respond to requests, where provided for in the PPA, from NUGs for contract extensions. Accurate and timely provision of information and analysis required by external legal counsel to represent OEFC in NUG litigation.	Ongoing monitoring and assessment of electricity market conditions with a view to identifying implications for NUG contract management and outstanding litigation. Ongoing management of NUG contract issues by evaluating contract change requests including requests for financial support and for contract extensions with a view to minimizing ratepayer impact. Support for NUG litigation including development of any required analysis. In particular, staff provided support for a lawsuit related to a change by the Ministry of Energy in the allocation of the Global Adjustment. Based on support from IESO, to support its initiative, as directed by the Minister of Energy, OEFC entered into an agreement to curtail a natural gas-fired NUG for most of the month of December. IESO verified that the curtailment payment is on substantially the same basis as longer term curtailments being discussed, and it provided support for the OEFC curtailment as it would help facilitate ratepayer savings that will be generated under the longer term agreement being negotiated by IESO. OEFC has also terminated three and suspended two gas-fired NUG PPAs to allow for those NUGs to enter into curtailment agreements with the IESO that provide them an incentive to operate in a manner that is better aligned with the integrated power system's needs, reducing costs to

Performance Measures	Targets	Results
		ratepayers and lowering carbon emissions.
Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee meter service provider performance to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing market rules and standards.	Implement and maintain all required operational systems and infrastructure. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Negotiate amendments to existing PPAs and incremental power purchase transactions as required.	PPAs continued to be managed effectively with energy payments settled accurately and on a timely basis. Received a clean opinion by Ontario Internal Audit from its bi-annual audit of NUG contract administration. Replacement of meters with 2016 seal expiries and installations of new TCP/IP communication protocols have been completed as scheduled. Completed the metering asset transfers and IESO settlement deregistrations for West Windsor Power and TransAlta Windsor upon its PPA termination. Timely updates to the PPA rates and adjustment payments to the NUGs reflecting various index changes. In compliance with the court order for the GA lawsuit settlement, reviewed revisions to the TMC/DCR new escalation indices and calculated, as well as, verified all the 2011-2015 retro-rate adjustments and payments totalling about \$181 million. Continued to provide inputs and energy settlement calculations for contract negotiations and preparations of affidavits & facts for various legal proceedings as required.

Performance Measures	Targets	Results
Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.	Invoices were received and all payments were settled in a timely manner.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Performance Measures	Targets	Results
Review and analyze requests from successor companies to ease cash flow constraints.	If necessary, provide additional credit facilities to OPG for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required.	Monitored and provided analysis and advice on OPG's liquidity, borrowing program and credit rating. Monitored a \$700 million credit facility with OEFC to provide financing for OPG's equity contribution to the Lower Mattagami project. The facility expired June 30, 2016, with no draws. Provided analysis and advice on and monitored OPG's external financing activities (commercial paper, public market project financing). Monitored a credit facility to OPG of up to \$800 million for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project, up to December 31, 2016. A new credit facility of \$700 million with OPG was put in place for 2017, with the agreement being amended to increase the credit facility to \$1.5 billion up to December 31, 2017 and \$2.35 billion thereafter until December 31, 2018. Monitoring a \$90 million loan refinancing and a \$95 million credit facility extension to the IESO, both

Performance Measures	Targets	Results
		expiring April 30, 2017, to provide the IESO with flexibility to meet financing and liquidity requirements.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Performance Measure	Targets	Results
Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the debt retirement charge (DRC), payment in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and analyze publicly available information from Hydro One. Meet operational requirements on a timely basis to implement the government's policy initiatives.	Monitored and analyzed OPG and Hydro One financial results. Monitored and provided analysis and advice on the fiscal impacts of OPG business plan's projections, as well as OPG and Hydro One publicly available financial information and rate application submissions to / decisions of the Ontario Energy Board (OEB), including monitoring of regulatory proceedings. Provided periodic electricity sector outlook and fiscal updates with respect to OEFC to various divisions within the Ministry of Finance and Treasury Board Secretariat, including for the Budget, Public Accounts and Fall Economic Statement. Provided analysis, advice, and implementation support regarding the financial impacts on OEFC from broadening Hydro One ownership, including financial benefits under section 50.3 of the <i>Electricity Act, 1998</i> and the Province's commitment to dedicating proceeds related to the book value of shares sold to OEFC. Prepared submission packages for statutory appropriation expense item for Hydro One provincial corporate income tax payable to the OEFC, as provided for under section 91.2 of the <i>Electricity Act, 1998</i>
Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections to the Auditor General for review and audit committee and Board for approval.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Perform annual update of the long-term defeasance model.	Completed 2015-16 audited financial statements and annual report, and interim quarterly financial statements for 2016-17. Provided OEFC financial information for 2015-16 Public Accounts. Prepared 2017-18 OEFC PRRT (Program Review, Renewal, and Transformation) submission and updated forecast for the 2016 Fall Economic Statement. Reviewed and updated the long-term OEFC model, including analysis of electricity sector policy scenarios.

Performance Measure	Targets	Results
Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.	Implemented a Minister of Finance Directive to OEFC to provide a credit facility to OPG for 2017 for general corporate requirements, including the Darlington Refurbishment Project. Continued to implement past, active Directives.

Appendix B –Corporate Structure and Accountability

Governing Legislation

Pursuant to the *Electricity Act, 1998* (the Act), OEFC is the legal continuation of Ontario Hydro and is a corporation without share capital. Its legislative mandate is set out in the Act. The Act provides for the appointment by the Lieutenant Governor in Council of a Board of Directors to supervise the management of the OEFC. The Act provides that the CEO is appointed by the Lieutenant Governor in Council, on the recommendation of the Minister of Finance. The CEO is responsible for managing the day to day operations of the OEFC.

Agency Classification

The Act provides that the OEFC is an agent of the Crown. It is classified as a “Board Governed Agency” agency pursuant to Management Board’s Agencies and Appointments Directive.

Minister of Finance

The Minister of Finance is responsible to the Legislature for the fulfilment of the OEFC’s mandate and reporting on the affairs of the OEFC, including tabling of the annual report in the Legislature. The Minister approves the OEFC’s annual business plan, which may also be reviewed at any time at the request of the Minister or Management Board of Cabinet (MBC).

In accordance with MBC requirements, the Minister enters into or affirms a Memorandum of Understanding (MOU) with the OEFC which sets out the OEFC’s mandate and the roles and responsibilities of senior management, including the Chair, Board of Directors and CEO. The MOU also sets out financial and other reporting responsibilities of the OEFC to the Minister. The Minister recommends the approval of the MOU by MBC.

Deputy Minister and Chair

The Deputy Minister of Finance advises the Minister of major issues or developments involving OEFC. Generally, the Deputy Minister is also appointed as Chair of the OEFC. As Chair, he or she provides leadership and direction to the OEFC Board and is responsible for developing the MOU with the Minister and for submitting the annual business plan, including budget, to the Minister.

Corporate Governance

Board of Directors

The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. In accordance with the OEFC's MOU with the Minister of Finance, the OEFC Board performs a supervisory role. It oversees the management of the OEFC and helps to ensure that the OEFC's mandate, as determined by the Province, is implemented. The Board is currently comprised of current and former public servants.

The Board fulfills its responsibilities through regular meetings of its Audit Committee and meetings of the full Board, receipt of regular reports from management and approval of the OEFC's financial risk policies as well as its internal audit plan, annual business plan and annual report. The Board receives quarterly reports from management regarding OEFC's compliance with applicable laws, directives and policies. The Board may enact by-laws for the OEFC, which must be approved by the Minister of Finance. The Board meets at least once quarterly.

OEFC is required to provide its annual report to the Minister of Finance within 90 days of the fiscal year end, or, if extended by the Minister, by the day on which the Public Accounts of Ontario are released. The annual report is tabled in the Legislature. The OEFC financial statements are included in the Public Accounts of Ontario.

Audit Committee

The Audit Committee supports the Board of Directors. It reviews the OEFC's financial statements and recommends them to the Board of Directors. It also approves the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls. Another function of the Audit Committee is to receive regular reports regarding OEFC's compliance with legal and regulatory requirements and applicable government directives and policies.

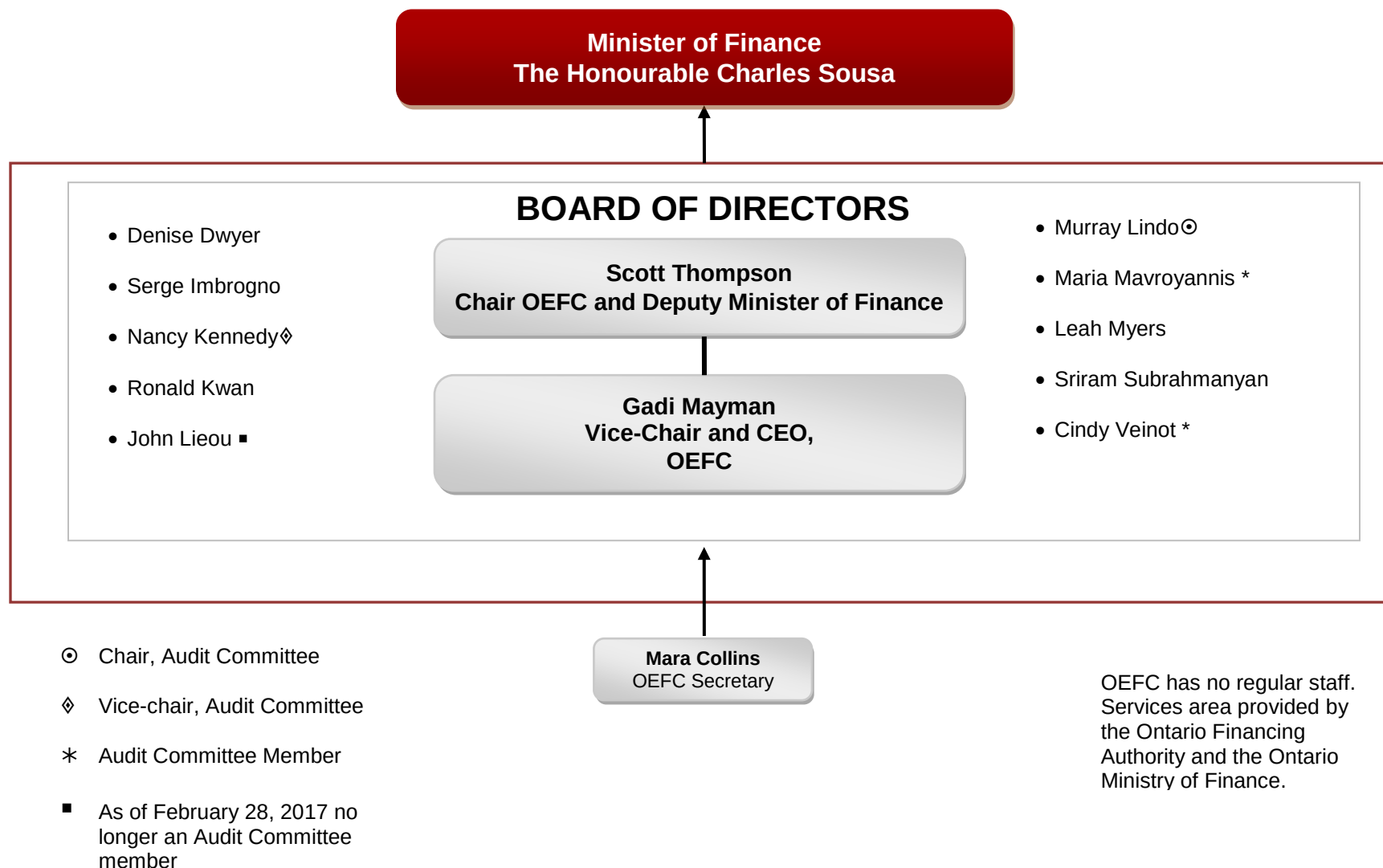
Chief Executive Officer (CEO)

The CEO is accountable to the Board for managing the day to day operations of the OEFC in accordance with its annual business plan, the OEFC's by-laws, Board-approved policies, and applicable ministerial and government directives. The CEO reports at each quarterly board meeting regarding the operations of the OEFC. The CEO also reports to the Chair concerning the OEFC.

Employees

The OEFC does not have any employees, although some OFA staff members are designated as officers of the OEFC for the purpose of executing agreements and other documents on its behalf. The OFA and staff in the Ministry of Finance carry out the OEFC's day to day operations under the supervision of the CEO and the OEFC Board.

Ontario Electricity Financial Corporation (OEFC) Organization Chart



From: [Christina Zhang](#)
To: [Gavin He](#)
Subject: FW: OEFC Business Plan
Date: Wednesday, March 29, 2017 3:22:02 PM
Attachments: [OEFC 2015-18 Business Plan _Public Version Draft_Markup.docx](#)

Hi,

FYI. Below is the back and forth on the OEFC BP. I'm still having a hard time understanding what you're asking me to look for.

Christina

From: Christina Zhang
Sent: Tuesday, December 15, 2015 10:50 AM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: RE: OEFC Business Plan

Hi Ron,

Thanks. Looks good.

Last year, we only kept the Targets under the Strategic Directions and Performance Measures section and I had followed the same approach. I can check with Legal and IR on what would be more suitable.

I'll also see if there is a more recent Org chart but the October 2014 version was included in the version of the BP that the BOD and Minister approved so I'm inclined to keep it as is.

Thanks,
Christina

From: Ronald Kwan
Sent: Tuesday, December 15, 2015 12:33 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: OEFC Business Plan

Hi Christina,

How about this?

Thanks,
Ron

From: Christina Zhang

Sent: December-14-15 17:20

To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>

Subject: RE: OEFC Business Plan

Hi Ron,

Please follow the link below for the full BP:

http://portal.ofina.on.ca/sites/ceo/busplancntrl/Shared%20Documents/2015-2018%20OEFC%20Business%20Plan/OEFC%202015-18%20Business%20Plan%20Draft_BOD%20Approved.docx

Draft Public BP:

http://portal.ofina.on.ca/sites/ceo/busplancntrl/Shared%20Documents/2015-2018%20OEFC%20Business%20Plan/OEFC%202015-18%20Business%20Plan%20_Public%20Version%20Draft.docx

Thanks,
Christina

From: Ronald Kwan

Sent: Monday, December 14, 2015 4:04 PM

To: Christina Zhang <Christina.Zhang@ofina.on.ca>

Subject: OEFC Business Plan

Hi,

Would you send me the full and draft BP for posting.

Thanks,
Ron



2015-18 BUSINESS PLAN

Highlights

Formatted: Font: Arial Bold, Not Small caps

Approved by the Board of Directors February 27, 2015

—Date

Approved by the Minister of Finance

Signature

The Honourable Charles Sousa
Minister of Finance

Date

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Executive Summary

The Ontario Electricity Financial Corporation (OEFC, or the Corporation) is responsible for the management of the debt and certain other liabilities of the former Ontario Hydro. The OEFC assumed approximately \$38.1 billion in debt and other liabilities of the former Ontario Hydro when it was restructured on April 1, 1999. As at March 31, 2014, total debt and liabilities amounted to \$27.4 billion.

Overview of 2014-15 Results

The Ontario Electricity Financial Corporation (OEFC) accomplished the following key objectives presented in its 2014-17 business plan.

1. Manage debt and other liabilities cost-effectively
 - As at January 19, 2015, the Ontario Financing Authority (OFA) had completed \$1.73 billion of the \$1.88 billion long-term borrowing requirement of the OEFC for 2014-15.
2. Manage financial risk within approved policy limits
 - Maintained a zero foreign exchange exposure on outstanding debt principal and maintained net interest rate resetting exposure within policy limits.
3. Manage and administer the OEFC power supply and demand management contracts
 - In 2014-15, to the end of December, achieved \$7.1 million in cost-savings through curtailments.
 - Continued to implement the Contingency Support Agreement (CSA) between the OEFC and OPG for the Lambton and Nanticoke coal-fired stations, which primarily involved management of termination costs.
 - Continued to manage and implement a contract with the Independent Electricity System Operator (IESO) in support of its Industrial Electricity Incentive (IEI) demand management program. Note that the contract was between the former Ontario Power Authority (OPA) and the OEFC, and, subsequent, to the January 1, 2015, merger of the IESO and the OPA into a new entity, also called the IESO, the contract is now between the IESO and the OEFC.
4. Provide financial assistance, as required, to the Ontario Hydro successor corporations
 - Continued to monitor and implement directives from the Minister of Finance to provide loans to OPG up to \$700 million for the Lower Mattagami project.
 - Implemented a Minister's directive to OEFC to provide a two-year \$800 million credit facility up to December 31, 2016, for Ontario Power Generation (OPG), for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project.
 - Provided analysis and advice to facilitate continuation of the credit facility between the IESO and the OEFC following the amalgamation of the former OPA and IESO, effective January 1, 2015.
5. Support the implementation of the government's electricity industry policies and determine the impact on the OEFC

- Implemented a Minister of Finance Directive to OEFC to support a new Stream 3 for the IEI program.
- Projections for 2014-15 in Budget 2014 show an excess of revenue over expense of \$1.3 billion, which would reduce the Corporation's unfunded liability (or stranded debt) from \$9.8 billion to \$8.5 billion. This would be the eleventh consecutive annual decline in the unfunded liability (\$10.9 billion below the \$19.4 billion level at the time the former Ontario Hydro was restructured on April 1, 1999).

Key Objectives for 2015-2018 include the following:

- Manage debt and other liabilities cost-effectively.
- Manage financial risk within approved policy limits.
- Manage and administer the non-utility generator (NUG) contracts and the audit and any final settlements of the Lambton and Nanticoke Contingency Support Agreement (the "OEFC power supply contracts").
- Manage and administer a contract with IESO in support of its Industrial Electricity Incentive (IEI) demand management program, and as amended for a new Stream 3 of the program.
- Provide financial assistance as required to the Ontario Hydro successor corporations.
- Support the implementation of the government's electricity industry policies and determine the impact on the OEFC.

Governing Legislation and Mandate

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): Ontario Power Generation Inc. (OPG), Hydro One Inc. (Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and the OEFC.

Pursuant to the Act, the OEFC's mandate includes the following:

- Managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro.
- Managing the former Ontario Hydro's NUG contracts.
- Receiving all payments and administering other assets, liabilities, rights and obligations of the former Ontario Hydro 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 electricity supply or management of electricity demand, in Ontario.
- Performing any additional objects as specified by the Lieutenant Governor in Council.

Strategic Directions and Performance Measures

1. Manage Debt and Other Liabilities Cost-Effectively

- The OEFC will refinance \$3.9 billion, \$2.7 billion, and \$2.0 billion in existing long-term debt maturities in 2013-14 2014-15, and 2015-16 respectively.

Objective	Performance Measure	Targets
Manage financing requirements in a sound and efficient manner. The OEFC manages the debt and liabilities of the former Ontario Hydro, with total debt of \$26.1 billion as at March 31, 2014. The 2014-15 Financing, Debt and Electricity Management Plan for the Province and the OEFC will be approved at March 31, 2014. The 2014-15 Financing, Debt and Electricity Management Plan for the Province and the OEFC will reflect considerations such as investor demand, market structure, interest rate outlook and 50 to 75 for strategic foreign borrowings. The OEFC will manage its debt portfolio. The plan will reflect performance measurement purposes only. Borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. Performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year. The OEFC will refinance \$3.9 billion, \$2.7 billion, and \$2.0 billion in existing long-term debt maturities in 2013-14 2014-15, and 2015-16 respectively.	For performance measurement purposes only. Borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. Performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The OEFC will refinance \$3.9 billion, \$2.7 billion, and \$2.0 billion in existing long-term debt maturities in 2013-14 2014-15, and 2015-16 respectively. 50 to 75 for strategic foreign borrowings.
Working with OPG and Hydro One to effectively manage claims against OEFC and Hydro One or OPG relating to the former Ontario Hydro's federal permits and related facilities on First Nation Reserves ("Permit Claims"). OEFC is released from liability relating to Permit Claims.	Permit Claims are defended or settled without liability to OEFC. OEFC is released from liability relating to Permit Claims.	OEFC is not required to make any payments under any judgement or settlement of a Permit Claim. All settlements of Permit Claims by Hydro One/OPG also include a release of OEFC.

OEFC is released from liability relating to Permit Claims.

OEFC is not required to make any payments under any judgement or settlement of a Permit Claim.

All settlements of Permit Claims by Hydro One/OPG also include a release of OEFC.

Commented [RK1]: Was there a general direction to focus on the measures, and not the objectives?

I'd suggest swapping some out.

Commented [CZ2R1]: I followed what we did last year which was to only highlight the Targets.

2. Manage Financial Risk within Approved Policy Limits

- Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt.
- Maintain net interest rate resetting exposure below 35 per cent of outstanding debt.
- Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.
- Policies for Market Risk, Credit Risk, Use of Derivatives and Other Financial Instruments, and Risk Management Reporting are regularly reviewed and updated annually.
- Interest and FX rate exposures are calculated and reported on a daily and monthly basis, respectively.
- Monthly stress testing is performed on the OEFC's credit exposures.

Objective	Performance Measure	Targets
Manage the debt portfolio within exposure policy limits. Exposures are expected to remain within policy limits throughout 2014-17.	The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.
Setting risk management policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for Market Risk, Credit Risk, Use of Derivatives and Other Financial Instruments, and Risk Management Reporting are regularly reviewed and updated annually. Interest and FX rate exposures are calculated and reported on a daily and monthly basis, respectively. Monthly stress testing is performed on the OEFC's credit exposures.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

- Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.
- Maintain and improve operational systems, applications and infrastructure as required.
- ~~Maintain and improve operational systems, applications and infrastructure as required.~~
- Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms.
- Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Provide operational and market settlement support and as advice as required.
- Monitor and review the administration of termination cost payments and final settlements under the Contingency Support Agreement between OPG and OEFC. Management and procurement of review and audit services. Receive and analyze audit service reports and any final settlements under the Lambton and Nanticoke Contingency Support Agreement.
- Administer the OEFC's obligations to provide the IESO support for its DRC offset payments made under the IEI demand management program. Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.

Objective	Performance Measure	Targets
Minimize NUG costs to ratepayers by utilizing arrangements such as curtailment or incremental power transactions.	The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.
Negotiate any necessary revisions to the NUG contracts to ensure that the contracts are consistent with developments in the electricity sector and government policy.	Successful negotiation of revisions to the contracts necessary to ensure that the contracts are consistent with the current electricity market environment and government policy. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions are negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy. NUG contract extensions are negotiated provided that the following conditions have been met: - OEFC has written support from the IESO for such an extension.

Objective	Performance Measure	Targets
		–That the requested extension is in relation to ongoing negotiations between the NUG and the IESO for a potential new contract following NUG expiry.
Provide effective administration of NUG power purchase agreements (PPAs).	Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee the performance of the meter service provider under contract to OEFC, to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing contract terms, electricity market rules and standards.	Maintain and improve operational systems, applications and infrastructure as required. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Provide operational and market settlement support and as advice as required.
Monitor and review the administration of termination cost payments and final settlements under the Contingency Support Agreement between OPG and OEFC.	Manage termination cost payments and final settlements under the Contingency Support Agreement between the OEFC and OPG for the Lambton and Nanticoke coal-fired stations, including the administration of OEFC's audit rights.	Management and procurement of review and audit services. Receive and analyze audit service reports and any final settlements under the Lambton and Nanticoke Contingency Support Agreement.
Administer the OEFC's obligations to provide the IESO support for its DRC offset payments made under the IEL demand management program.	Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEL, and as amended for a new Stream 3 of the program.	Settle invoices from the IESO for IEL DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

4.

- Provide and monitor additional credit facilities to OPG and IESO, as needed, for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required, including greater access to 30-year borrowing for OPG.
- Monitor long term debt issuance under the current OPG credit facility for general corporate purposes including the Darlington refurbishment project for calendar 2015 and 2016.

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Objective	Performance Measure	Targets
Facilitate the cash flow requirements of the successor corporations.	Review and analyze requests from successor companies to ease cash flow constraints. Review and analyze requests from OPG to provide flexibility in debt term structure.	Provide and monitor additional credit facilities to OPG and IESO, as needed, for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required, including greater access to 30-year borrowing for OPG. Monitor long term debt issuance under the current OPG credit facility for general corporate purposes including the Darlington refurbishment project for calendar 2015 and 2016.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

- Monitor the financial performance of the successor electricity corporations. Receive and analyze monthly updates (and additional information, as required) from OPG and Hydro One.
- Monitor, review and respond to developments and/or government policy initiatives in the electricity sector. Meet operational requirements on a timely basis to implement the government's policy initiatives.
- Timely and accurate financial reporting. Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval.
- Continue to review the long-term OEFC defeasance model.
- Timely and responsive implementation of Directives as required.

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Objective	Performance Measure	Targets
Monitor the financial performance of the successor electricity corporations.	Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the DRC, payments in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and Hydro One.
Monitor, review and respond to developments and/or government policy initiatives in the electricity sector.		Meet operational requirements on a timely basis to implement the government's policy initiatives.
Timely and accurate financial reporting.	Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Continue to review the long-term OEFC defeasance model.
Implement Directives from the Minister of Finance.	Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.

Risk Identification, Assessment and Mitigation Strategies

Risk Category: STRATEGIC				
RISK AREA: Strategic/ Policy/ Performance Risk: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with OPS policies). The risk that strategies and policies fail to achieve required/ targeted results. The risk of not providing value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence / Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Strategic Planning (Annual Business Plan)	Strategies and policies fail to achieve required results.	Low/High	Medium	A three-year OEFC business plan is approved by the Minister of Finance and OEFC's Board of Directors. Quarterly progress reports are provided to the OEFC's Board and reporting on the achievement of strategic objectives for the previous fiscal year is included in the business plan. OEFC monitors the electricity sector environment and provides analysis and advice on policy options which could directly or indirectly have an impact on OEFC and relevant stakeholders. The Ministry will be consulted before any change is made to OEFC's strategic direction or programs that require ministry and/or TB/MBC approval. The Financing, Debt and Electricity Management Plan for OEFC is developed based on in-depth research and analysis and is adjusted throughout the year as conditions change. The Audit Committee (AC) of the Board works with Ontario Internal Audit Division to ensure that the annual OEFC audit plan allows for the auditors to assist with program design and provides for audits of any high risk aspects of programs.

Meeting Stakeholder Expectations	The risk that OEFC may fail to meet stakeholder expectations, including those of the Province and other public bodies.	Low/High	Medium	OEFC manages the former Ontario Hydro's debt and administers the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities, including the Non-Utility Generator contracts, and provides financial assistance to the successor corporations of Ontario Hydro. OEFC is available to meet with any OEFC electricity contract counterparty as required. OEFC senior management maintains regular and frequent contact with the Deputy Minister's Office, the Deputy Minister of Energy and the OEFC Board. This is complemented through quarterly board meetings chaired by the Deputy Minister of Finance and annual reporting to the Minister. OEFC's reporting to external stakeholders is through publishing the Annual Report, and its annual financial statements are included in the Public Accounts of the Province. The OEFC also maintains and updates a website accessible to external stakeholders. Under Ontario Regulation 89/12, the Minister of Finance is required to make a determination annually of residual stranded debt, following the submission of OEFC's Annual Report.
Electricity Policy Changes	Government policy changes that could result in additional responsibilities for the OEFC, or have an impact on the dedicated revenues to OEFC.	Medium / High	High	Monitor, assess and respond to developments in support of the government's electricity plan. Provide financial analysis and advice, including advice on the impact of government's policy on OEFC and pay down of stranded debt and potential cost recovery from the rate base.

Financial Market Risk	Higher-than-forecast interest rates resulting in higher annual financing charges.	Medium/Medium	Medium	Manage net interest rate resetting exposure. Diversify the borrowing program by managing its pace and the debt maturity profile.
Credit Risk	The risk that counterparty defaults on its obligations arising from financial and derivative transactions.	Low/Medium	Low	Reduce exposure to external counterparties with a credit rating of single-A, and lower by using standard credit mitigation techniques, including the possible execution of collateral agreements, re-couponing and terminations. Entities with high potential exposures relative to credit limits will be used sparingly when initiating new swaps.
Dedicated Revenues of the Electricity Sector to OEFC	The amount of dedicated revenues to OEFC affect stranded debt pay down and the estimated end of the debt retirement charge (DRC). Lower than expected financial performance of Ontario Power Generation (OPG) and Hydro One would result in lower payments in lieu of taxes (PILs) and electricity sector dedicated income (ESDI) transfer from the Province to OEFC. Tax accounting impacting the timing of PILs paid by municipal electricity utilities (MEUs). The financial performance of OPG's nuclear decommissioning segregated fund below forecast would reduce OPG's net income and ESDI to OEFC.	Medium/High	Medium	Staff receive and review OPG and Hydro One business plans and monthly financial updates and provide projections and analysis, as well as potential options, to the government and OEFC. Monitor MEU PILs cash flows and MEU financial statements. OFA jointly manages the funds. Diversify the nuclear funds investment portfolio globally using a variety of fund managers in different sectors.

Risk Category: ACCOUNTABILITY/GOVERNANCE

RISK AREA: Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, MOU or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Meeting statutory requirements	Risk of non-compliance with statutory requirements	Low/High	Low	OFA Legal Branch advises of statutory changes affecting OEFC operations and key directives are distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO. Non-compliance with applicable laws or regulations would also be reported to the Board quarterly (or sooner, depending on the severity). CEO/Board direct remedial action (which may include training). Ministry/MGS HR personnel would advise on any disciplinary action.
Reliability of financial systems	The risk that the OEFC's financial information and reporting system (through the OFA) is not reliable or fails to meet quality standards.	Low/High	Medium	The OEFC has well-established processes and procedures for monitoring and reporting on its financial performance to its Audit Committee, Board of Directors and to the Ministry. OEFC financials are prepared on a quarterly basis for discussion and approval by the OEFC Audit Committee and Board of Directors. Changes to accounting pronouncements are also addressed during the quarterly discussions. Annual budgets and audited financials are submitted to the ministry as per TBS requirements.
First Nations Litigation	OEFC, as a legal successor to Ontario Hydro, is at risk of being named in First Nations lawsuits.	Medium/Low	Low	OEFC is indemnified by OPG and/or HOI for any liability in relation to the matters raised in these lawsuits.

NUG litigation	OEFC, as a legal successor to Ontario Hydro, is party to lawsuits by non-utility generators (NUGs) relating to their power purchase agreements (PPAs) originally entered into with Ontario Hydro.	High/Medium	Medium	OEFC administers these claims based on appropriate legal advice. The risk is reduced as PPAs expire. Currently, there is a significant lawsuit before the courts related to rates paid under certain NUG PPAs following a regulation change by the Ministry of Energy which changed the allocation of the Global Adjustment. A court decision against OEFC could be viewed negatively by stakeholders. Any NUG-related expenses would be expected to be passed through to consumers over time resulting in higher rates.

Risk Category: OPERATIONAL

RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Operational Risk	Risk of not effecting settlement of electricity transactions and payments to the NUGs, or other contract counterparties, conducted by the OEFC since January 1, 2005.	Low/Medium	Low	Systems, procedures and controls have been in place and continuously improved since inception and staff are adequately trained, with no significant issues.

Risk Category: INFORMATION TECHNOLOGY AND INFRASTRUCTURE

RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.

Risk Element or Classification	Identification of Risk/Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Privacy and security	Does the agency handle sensitive/confidential information on behalf of the government? How does the agency reduce the potential compromise of personal data through identity theft, or unauthorized electronic or physical	Low/Medium	Low	Access to all electronic data requires some form of authentication. Security of electronic and hard copy information is provided by key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a yearly basis, including audits of electronic and physical security. Security policies

	access of information?			are also in place and all staff are required to comply.
Business continuity	What are the processes in place to ensure that critical I&IT systems are available for operation to support business requirements (disaster recovery & business continuity planning)?	Low/Medium	Low	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's disaster recovery (DR) site. Critical production systems are routinely run out of the DR site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes remote equipment, remote access services and mobile telephones. Internal Audit Division is conducting an audit of the OFA BCP.

Risk Category: OTHER

RISK AREA: Other Risk: Risk that does not fit in any of the above categories. Corporate Social Responsibility concerns—Environment, Climate Change, Energy Management, Health Promotion, Waste Reduction, Fair Trade practices. Organizational Assets—Facilities and Equipment, Personal Safety, Physical Security. Issues relating to third parties that are involved with the agency such as service or goods providers.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Additional risks	How does the agency ensure that consideration of financial risk is an ongoing exercise within the agency, i.e. the potential costs of relationships with third party service providers or suppliers?	Low/Low	Low	As part of procuring service providers and supplies, the OFA's procurement policy requires identification of the cost of the contract over the term, including renewals and consideration of other options.

Environmental Scan: Assessment of Issues Facing the OEFC

Factors that could affect OEFC meeting financial projections or core corporate objectives are described below.

External Factors

- The financial performances of OPG and Hydro One affect OEFC revenues relating to
 - i) the electricity sector dedicated income from the Province, which is the cumulative combined net income of OPG and Hydro One in excess of the Province's interest costs of its investment in its electricity subsidiaries; and
 - ii) OPG and Hydro One payments in lieu of taxes (PILs) to the OEFC.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through MEU PILs to the OEFC.
- The Ontario Energy Board's (OEB) decisions on regulated rates, including the allowed return on equity, may affect projected OPG and Hydro One's financial performance.
- Additional financial assistance to OPG may be required in the future, including debt maturity refinancing and new loans.

Economic conditions and electricity demand:

- Economic conditions, industrial activity, and higher/lower electricity demand have an impact on the OEFC through OPG's and Hydro One's net income and PILs, MEU PILs, and Debt Retirement Charge (DRC) revenue. An economic downturn/recovery would tend to decrease/increase electricity demand.
- Electricity demand lower than projections in regulatory filings could result in lower revenues for OPG, Hydro One and MEUs in the absence of recovery through variance accounts. In addition, lower demand could trigger curtailments for hydroelectric and nuclear production, potentially resulting in a negative financial impact to OPG if these costs are non-recoverable in rates.
- Lower electricity consumption also results in lower DRC revenues.
- Economic conditions may affect pension costs for OPG and Hydro One. Any pension costs not recovered through electricity rates or deviating from forecasts without recovery through variance accounts would lead to reductions in earnings of OPG and Hydro One.

Financial markets:

- The Bank of Canada has maintained the target overnight interest rate at 1 per cent since September 2010. The Bank of Canada is expected to hold interest rates steady until at least late 2014, reflecting a modest Canadian outlook.

- According to private-sector forecasters, the three-month Treasury bill rate is expected to average 1.0 per cent in 2014, basically unchanged from 2013, and then increase to 1.4 per cent in 2015, and 2.7 per cent in 2016. The 10-year Government of Canada bond rate is projected to average 2.9 per cent in 2014, up from 2.3 per cent in 2013, and gradually rise to 3.5 per cent in 2015, and 4.0 per cent in 2016.
- The U.S. Federal Reserve has left its benchmark rate unchanged at between 0 and 25 basis points since December of 2008. The U.S. Federal Reserve has indicated that this target range will be appropriate as long as the unemployment rate remains above 6.5 per cent, near term inflation projections remain close to 2 per cent, and longer-term inflation expectations continue to be well anchored. Currently, the U.S. unemployment rate is 6.6 per cent. The Federal Reserve has begun tapering its securities purchases, reducing acquisitions by \$10 billion a month in January, and an additional \$10 billion in February. The Federal Reserve is currently purchasing \$30 billion in mortgage securities and \$35 billion in Treasuries each month. The Committee will likely continue to reduce the pace of asset purchases at future meetings. However, the Federal Reserve has stated the tapering of asset purchases is not on a preset course and the Committee's decisions will remain contingent on the outlook for the labor market and inflation.
- According to private-sector forecasters, the three-month U.S. Treasury bill rate is expected to average 0.1 per cent in 2014, before rising to 0.4 per cent in 2015, and 2.1 per cent in 2016. The yield on 10-year U.S. government notes is expected to average 3.1 per cent in 2014, up from 2.4 per cent in 2013, and rise to 3.7 per cent in 2015, and 4.1 per cent in 2016.

Changes to the government policy environment can affect OEFC revenues and expenses:

- Changes in corporate tax rates would affect OEFC's current and projected future payments-in-lieu of tax revenues to OEFC from OPG, Hydro One and MEUs.
- The Premier's Advisory Council on Government Assets is examining options to improve returns and revenues from assets such as Hydro One and OPG, including potential structural changes to the companies, as well as encouraging consolidation in the distribution sector. Government policy, as informed by such reviews, could affect OEFC's current and projected revenue streams from OPG, Hydro One and MEUs.
- Government policy that would affect electricity load, up or down, with an increase or decrease in DRC revenue, offset by any expense to support load management.

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Resources

Since April 1, 1999, pursuant to a directive from the Minister of Finance, the OFA has conducted borrowing and related debt and risk management activities, cash management, banking, accounting, financial reporting, forecasting and other related activities on a cost-recovery basis for the OEFC.

Many OFA staff perform OEFC-related functions; for efficiency reasons, these staff are integrated with OFA business units. The costs of twenty full-time equivalents (FTEs) and associated overhead are fully recovered from the OEFC. Effective April 1, 2007, additional full-cost recovery for debt management services was approved by both the OEFC and OFA Boards of Directors. OFA's debt management charge to OEFC will be reduced to reflect the lower proportion of OEFC debt to total debt. This reduction will be partially offset by increases in recoveries in Corporate and Electricity Finance Division reflecting additional work load related directly to the operations of

OEFC. OFA positions are generally excluded from collective bargaining as the OFA performs and investing on behalf of the Province, including the OEFC.

Commented [RK3]: This seems very dated.

In accordance with a Memorandum of Understanding (MOU) between the OEFC and the Ministry of Finance, an agreed number of FTEs has been allocated to the Ministry of Finance to provide revenue collection and reporting services. Costs of these positions are fully recoverable from the OEFC.

The OFA works closely with the Ministry of Finance's human resources branch to implement and maintain the government's human resource strategies, policies and practices.

Financial Statements and Budget

Proposed Operating Expenditures, Projected Revenues & Funding Requirements

The OEFC is an operational enterprise agency of the Province. It has a legislated requirement to issue audited financial statements for the fiscal year, which are approved by its Board of Directors and to submit these to the Minister of Finance within 90 days after the end of every fiscal year. The financial statements summarize the OEFC's revenues and expenditures and are tabled in the Legislature once approved by the Minister of Finance. The statements are also included in the Public Accounts of Ontario. The financial results of the OEFC are consolidated with those of the Province for Public Accounts and Budget purposes.

The business plan shows the operational costs of the OEFC. The following budget table provides the projected cost of functions performed by the OFA and the Ministry of Finance to be recovered from the OEFC. The OEFC does not undertake any capital expenditures.

	Actual	Interim	Budget		
	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Salaries	2,098,114	2,140,076	2,182,877	2,226,534	2,271,065
Benefits	286,106	291,828	297,665	303,618	309,691
	2,384,220	2,431,904	2,480,542	2,530,152	2,580,756
Debt Management Costs	521,827	532,264	542,909	553,767	564,842
Direct Operating Expenses	634,441	647,130	660,072	673,274	686,739
Total OFA Cost Recoveries	\$3,540,488	\$3,611,298	\$3,683,523	\$3,757,193	\$3,832,337
MOF Chargeback for PILS and DRC Audit and Administration Costs	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
Total Cost Recoveries charged to OEFC	\$5,640,488	\$5,711,298	\$5,783,523	\$5,857,193	\$5,932,337

-OFA cost recoveries including the debt management costs are in accordance with the MOU between the OEFC and the OFA. The Ministry of Finance recovers on a quarterly basis, staffing and other out-of-pocket costs expended on the administration, audit and collection of the PILs and the DRC, again in accordance with the respective MOU.

Initiatives Involving Third Parties

~~OEFC manages and administers electricity contracts with Non-Utility Generators. In its management of these contracts, OEFC may consult with the provincial government and the Independent Electricity System Operator. OEFC also manages and administers termination cost payments for OPG (with respect to 2014) under a contingency support agreement, and manages and administers an agreement with the IESO to support a demand management program.~~

~~There are no other third parties, other than the provincial government and its agencies, with which the OEFC is partnering or with which it has a funding relationship for the purpose of delivering OEFC programs. Moreover, the OEFC does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.~~

Implementation Plan

For 2015–18, the OEFC intends to implement its business plan using existing resources.

Communications Plan

OEFC updates, including annual reports, bulletins, information for Ontario Hydro bondholders and electricity sector updates can be found on www.oefc.on.ca. Annual financial statements are also available in Volume 2 of the Public Accounts of Ontario. Financial and borrowing updates can be found in the Provincial Budget, the Economic Outlook and Fiscal Review, Ontario's Quarterly Finances and the OFA Bulletin.

The OFA also responds to inquiries from investors about bonds issued by the former Ontario Hydro, as well as inquiries from the public regarding the OEFC and its responsibilities.

Appendix A — Overview of 2014-15 Results

1. — Manage Debt and Other Liabilities Cost-Effectively

Performance Measures	Targets	Results
For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The OEFC will refinance \$2.7 billion, \$3.9 billion, and \$2.7 billion in existing long-term debt maturities in 2012-13, 2013-14 and 2014-15, respectively. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. (All results are validated by Internal Audit Division.)	\$3.3 billion of the long-term public borrowing requirement of \$3.4 billion was completed as at January 30, 2014. The percentile ranking of regular borrowing (excluding even-pace adjustment) as of December 31, 2014 was 51st percentile. There were no strategic foreign borrowings for OEFC as of December 31, 2014.
OEFC works with Hydro One to determine an effective strategy for transfers in cases where new permits are not being issued by the federal government due to backlogs. Meeting this objective is not completely within OEFC's control.	OEFC and Hydro One develop options for transfers where the federal government is not issuing new permits	Decision was made to specifically address in OEFC's agreements with First Nations, the possibility of new permits not being issued.

2. — Manage Financial Risk within Approved Policy Limits

Performance Measures	Targets	Results
The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.	As at December 31, 2014: — foreign exchange exposure was 0.0 per cent of outstanding debt; — net interest rate resetting exposure was 18.9 per cent of outstanding debt; — there was no breach of the IOD loss limit or counterparty default; and — all credit exposures were within approved limits.
Risk management policies conform to industry best practices.	Policies for market risk, credit risk, use of derivatives and other financial instruments, and risk management reporting are regularly reviewed and updated.	Revisions to the Credit Risk Policy, the Market Risk Policy, the Risk Management Reporting Policy, and the Policy on the Use of Derivatives and Other Financial Instruments, were approved by the OEFC Board on April 25, 2014, June 24, 2014, September 18, 2014, and December 12, 2014, respectively.
Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.	NIRRE exposure is calculated and reported on a daily basis; FX exposure, on a monthly basis. Monthly stress testing is performed on the OEFC's credit exposures and results are reported to the BSC.

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Performance Measures	Targets	Results
The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment, incremental power and other arrangements with the NUGs while protecting the interests of the ratepayers.	From April 1, 2014 to December 31, 2014, savings from curtailments totalled \$7.1 million. Worked with IESO in coordinating curtailments in response to surplus baseload generation.
Successful negotiation of revisions to the contracts necessary to ensure that the contracts are consistent with the current electricity market environment and government policy. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	Negotiate and reach agreement with NUG operators to ensure the NUG contracts are consistent with the current electricity market environment and government policy. NUG contract price revisions are negotiated provided that the following conditions have been met: – independent advice to determine economic viability of the facility; – advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and – support of the Ministry of Energy and Infrastructure. NUG contract extensions are negotiated provided that the following conditions have been met: – OEFC has written support from the IESO for such an extension. – That the requested extension in relation to ongoing negotiations between the NUG and the IESO for a potential new contract following NUG expiry. Accurate and timely provision of information and analysis required by external legal counsel to represent OEFC in NUG litigation.	Ongoing monitoring and assessment of electricity market conditions with a view to identifying implications for NUG contract management and outstanding litigation. Ongoing management of NUG contract issues by evaluating contract change requests including requests for financial support and for contract extensions with a view to minimizing ratepayer impact. OEFC staff provided input into the IESO's development of its Hydroelectric Standard Offer Program (HESOP), with a view to protecting OEFC and ratepayer interests. Ongoing support for outstanding NUG litigation including development of any required analysis. In particular, staff have been providing support for an ongoing lawsuit related to a change by the Ministry of Energy in the allocation of the Global Adjustment.

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Performance Measures	Targets	Results
Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs.	Implement and maintain all required operational systems and infrastructure.	Continued to maintain and enhance existing system applications, internal controls and operating procedures as and when required to ensure accurate and timely calculation and settlement of energy payments with the NUGs, IESO, Hydro One and local distribution companies (LDCs).
Accurate and timely reports for analytical and management reporting purposes.	Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms.	Resolved various operational and contract related issues with NUGs.
Oversee meter service provider performance to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing market rules and standards.	Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost effective and in line with the IESO's market rules and timelines.	Tracked and monitored ongoing generator loans including any generator deficiencies.
	Negotiate amendments to existing PPAs and incremental power purchase transactions as required.	Continued to work with our metering service provider to maintain various metering installations in compliance with IESO market rules, Measurement Canada standards and other regulatory requirements.
		All the revenue meters with 2014 seal expiries have been replaced and relevant instrument transformers have been tested in compliance with IESO Market Rules.
		Respective metering equipment was transferred to Cardinal Power and Atlantic Power-Tunis upon their PPA termination dates.
		Provided operational and market settlement information as well as advice in support of legal proceedings, renegotiation of contracts and energy curtailments.

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Performance Measures	Targets	Results
Implement the Contingency Support Agreement between the OEFC and OPG for the Lambton and Nanticoke coal-fired stations, including OEFC's audit rights.	Receive and analyze OPG's monthly statements under the Lambton and Nanticoke Contingency Support Agreement. Retain qualified third party to undertake annual audits on costs and gross revenues to ensure consistency with the terms of the Agreement and verification of other obligations of OPG under the Agreement including the use of good utility practice.	Continued to support and manage the Contingency Support Agreement for Lambton and Nanticoke between OEFC and OPG, including management of termination costs, and preparation for procurement of review services through a Request for Proposal process.
Timely settlement of any payments due to the OPA under the terms of the legal agreement respecting the IEI.	Settle invoices from the OPA for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit OPA records on an annual basis to ensure the accuracy of invoice calculations.	Effective January 1, 2015, the OPA and the IESO amalgamated into a new entity also called the IESO. Invoices were received and all payments were settled in a timely manner.

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4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Performance Measures	Targets	Results
Review and analyze requests from successor companies to ease cash flow constraints.	If necessary, provide additional credit facilities to OPG for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required.	Monitored and provided analysis and advice on OPG's liquidity, borrowing program and credit rating. Monitored a \$700-million credit facility with OEFC to provide financing for OPG's equity contribution to the Lower Mattagami project. Provided analysis and advice on and monitored OPG's external financing activities (commercial paper, public market project financing). Provided analysis and advice, and implemented a Minister's directive to lend OPG up to \$800-million for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project, up to December 31, 2016. Provided analysis and advice to facilitate continuation of the credit facility between the Independent Electricity System Operator (IESO) and the OEFC following the amalgamation of the former Ontario Power Authority (OPA) and IESO, effective January 1, 2015, including amendments to the appropriate regulation and associated credit agreements.

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Performance Measure	Targets	Results	Formatted: Heading 1, Left
Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the debt retirement charge (DRC), payment in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and Hydro One.	Continued monthly financial update meetings with OPG and Hydro One to monitor financial performance.	Formatted: Heading 1, Space Before: 0 pt
	Meet operational requirements on a timely basis to implement the government's policy initiatives.	Monitored and provided analysis and advice on the fiscal impacts of OPG and Hydro One's business plans' projections and rate application submissions to the Ontario Energy Board (OEB), including monitoring of regulatory proceedings.	Formatted: Heading 1, Space Before: 0 pt
		Provided periodic electricity sector outlook and fiscal updates with respect to OEFC to other divisions within the Ministry of Finance, including for the 2014 Budget, 2014 Public Accounts and Fall Economic Statement.	Formatted: Heading 1
Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections to the Auditor General for review and audit committee and Board for approval.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval.	Completed 2013-14 audited financial statements and annual report, and interim quarterly financial statements for 2014-15.	Formatted: Heading 1
		Provided OEFC financial information for 2013-14 Public Accounts.	Formatted: Heading 1, Space Before: 0 pt
	Perform annual update of the long-term defeasance model	Prepared 2015-16 OEFC PRRT (Program Review, Renewal, and Transformation) submission and updated forecast for the Fall Economic Statement.	Formatted: Heading 1, Space Before: 0 pt
Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.	Implemented a Directive for OEFC to provide OPG with a \$800 million credit facility for general corporate purposes.	Formatted: Heading 1
		Implemented a Minister of Finance Directive to OEFC to support a new Stream 3 for the IEI program.	Formatted: Heading 1, Space Before: 0 pt, After: 0 pt
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Appendix **AB** –Corporate Structure and Accountability

Governing Legislation

Pursuant to the *Electricity Act, 1998* (the Act), OEFC is the legal continuation of Ontario Hydro and is a corporation without share capital. Its legislative mandate is set out in the Act. The Act provides for the appointment by the Lieutenant Governor in Council of a Board of Directors to supervise the management of the OEFC and a CEO to be responsible for managing the day to day operations of the OEFC.

Agency Classification

The Act provides that the OEFC is an agent of the Crown. It is classified as an "Operational Enterprise" agency pursuant to Management Board's Agency Establishment and Accountability Directive.

Minister of Finance

The Minister of Finance is responsible to the Legislature for the fulfilment of the OEFC's mandate and reporting on the affairs of the OEFC, including tabling of the annual report in the Legislature. The Minister approves the OEFC's annual business plan, which may also be reviewed at any time at the request of the Minister or Management Board of Cabinet (MBC).

In accordance with MBC requirements, the Minister enters into or affirms a Memorandum of Understanding (MOU) with the OEFC which sets out the OEFC's mandate and the roles and responsibilities of senior management, including the Chair, Board of Directors and CEO. The MOU also sets out financial and other reporting responsibilities of the OEFC to the Minister. The Minister recommends the approval of the MOU by MBC.

Deputy Minister and Chair

The Deputy Minister of Finance advises the Minister of major issues or developments involving OEFC. Generally, the Deputy Minister is also appointed as Chair of the OEFC. As Chair, he or she provides leadership and direction to the OEFC Board and is responsible for developing the MOU with the Minister and for submitting the annual business plan, including budget, to the Minister.

Corporate Governance

Board of Directors

The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. In accordance with the OEFC's MOU with the Minister of Finance, the OEFC Board performs a supervisory role. It oversees the management of the OEFC and helps to ensure that the OEFC's mandate, as determined by the Province, is implemented. The Board is currently comprised of current and former public servants drawn from relevant government areas.

The Board fulfills its responsibilities through regular meetings of its Audit Committee and meetings of the full Board, receipt of regular reports from management and approval of the OEFC's financial risk policies as well as its internal audit plan, annual business plan and annual report. The Board receives quarterly reports from management regarding OEFC's compliance with applicable laws, directives and policies. The Board may enact by-laws for the OEFC, which must be approved by the Minister of Finance. The Board meets at least once quarterly.

OEFC is required to provide its annual report to the Minister of Finance within 90 days of the fiscal year end, or, if extended by the Minister, by the day on which the Public Accounts of Ontario are released. The annual report is tabled in the Legislature. The OEFC financial statements are consolidated with the Public Accounts of Ontario.

Audit Committee

The Audit Committee supports the Board of Directors. It reviews the OEFC's financial statements and recommends them to the Board of Directors. It also approves the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls. Another function of the Audit Committee is to receive regular reports regarding OEFC's compliance with legal and regulatory requirements and applicable government directives and policies.

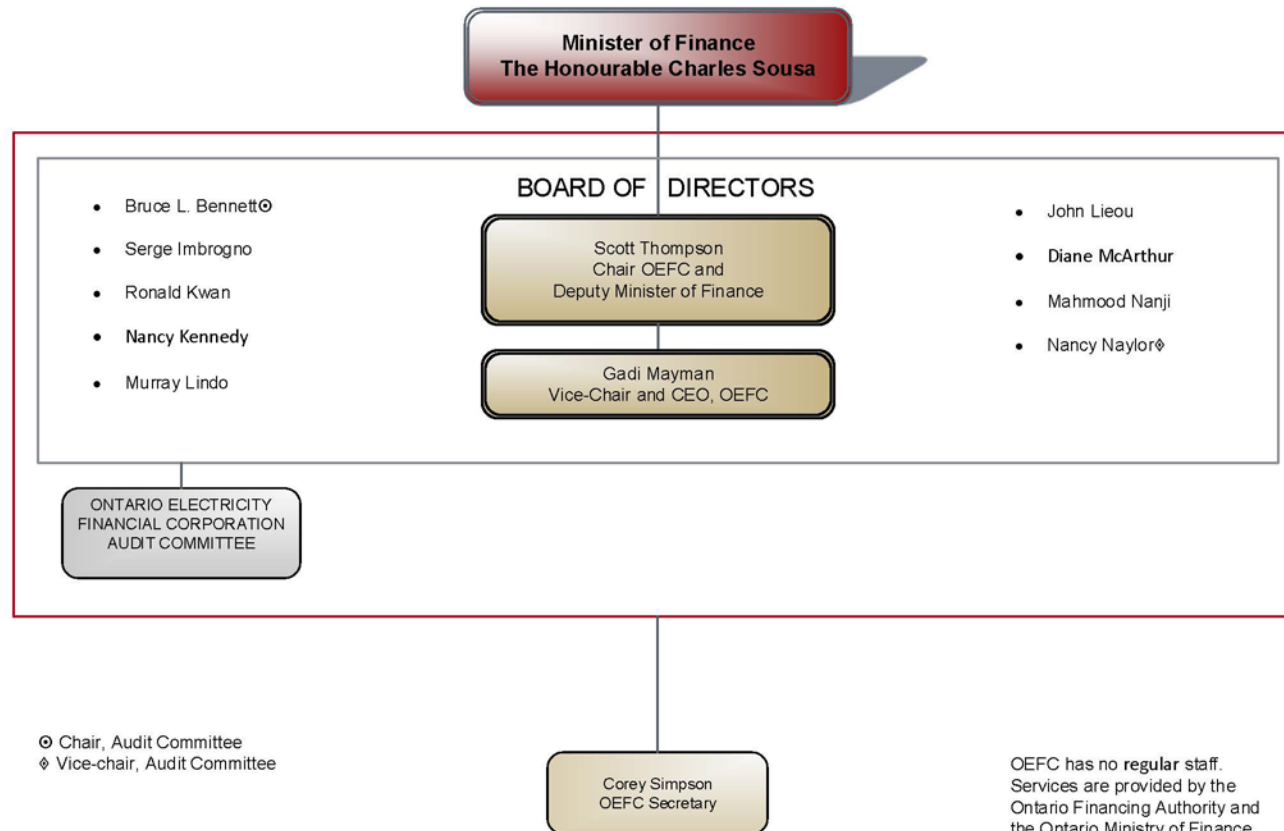
Chief Executive Officer (CEO)

The CEO is accountable to the Board for managing the day to day operations of the OEFC in accordance with its annual business plan, the OEFC's by-laws, Board-approved policies, and applicable ministerial and government directives. The CEO reports at each quarterly board meeting regarding the operations of the OEFC. The CEO also reports to the Chair concerning the OEFC.

Employees

The OEFC does not have any employees, although some OFA staff members are designated as officers of the OEFC for the purpose of executing agreements and other documents on its behalf. The OFA and staff in the Ministry of Finance carry out the OEFC's day to day operations under the supervision of the CEO and the OEFC Board.

OEFC ORGANIZATION CHART



Commented [RK4]: Should this be as at February 2015?

Commented [CZ5R4]: I'll see if there is a more recent org chart but this was in the version of the BP that the BOD and Minister signed off on so more inclined to use this.

October 22, 2014

From: [Khong, Cho \(MOF\)](#)
To: [Christina Zhang](#)
Cc: [Alena Ingram \(MOF\)](#); [Cho Khong \(MOF\)](#)
Subject: FW: OFA approved business plans
Date: Wednesday, March 15, 2017 11:13:11 AM
Attachments: [2017-20 OFA Business Plan.pdf](#)
[20170227170153956.pdf](#)

Christina, please send me the electronic version of the Transmittal Memorandum DM to Minister

Thanks,
Cho

From: Christina Zhang [mailto:Christina.Zhang@ofina.on.ca]
Sent: Monday, February 27, 2017 5:02 PM
To: Ingram, Alena (MOF)
Cc: Khong, Cho (MOF); Frost, Cheryl (MOF); Jeanes, Bridget (MOF)
Subject: RE: OFA approved business plans

Hi Alena,

Please find attached the approvals package containing the 2017-20 OFA Business Plan. The attached business plan was approved by the OFA Board of Directors on February 10th.

I'll put the hard copy into interoffice mail, addressed to your attention.

Regards,
Christina

From: Ingram, Alena (MOF) [mailto:Alena.Ingram@ontario.ca]
Sent: Monday, February 27, 2017 1:56 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Cho Khong (MOF) <Cho.Khong@ontario.ca>; Cheryl Frost (MOF) <Cheryl.Frost@ontario.ca>
Subject: OFA and OEFC business plans

Christina and Gavin,

Could you please confirm that we will be receiving final 2017-18 business plans for OFA and OEFC by the March 1 deadline?

If there are any issues, please let me know. Thanks.

Alena

Alena Ingram
Senior Program Analyst
Corporate Planning & Finance Branch, Ministry of Finance
905-436-4469
Alena.Ingram@Ontario.ca

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2017–20 Business Plan

Approved by the Board of Directors

February 10, 2017

Date

Approved by the Minister of Finance

Signature

Date

The Honourable Charles Sousa
Minister of Finance

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EXECUTIVE SUMMARY

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). The initiatives in the OFA's 2017–20 Business Plan will focus on achieving the objectives set out in CIPA and the objectives set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016 over a three year planning horizon, as well as reporting on results of the previous year's Business Plan. Initiatives for the 2017–20 Plan include:

1. Executing the Province's borrowing program through development and implementation of the annual Financing, Debt & Electricity Management Plan. The Plan will provide critical details on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
2. Managing the Province's debt, investments, Ontario Nuclear Funds Agreement (ONFA) and financial risk, and contributing to the development of the Province's fiscal plan and outlook by working to generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds for various public bodies. This also involves managing ONFA-related investments, working together with Ontario Power Generation Inc. (OPG), to ensure interest rate, foreign exchange and credit exposures are within approved policy limits, as well as contributing to the Province's annual Budget, Fall Statement and quarterly finances.
3. Managing key financial relationships by building and maintaining connections with investors in both existing and new markets, as well as relationships with banks, financial service providers and investment dealers. This includes providing Investor Relations information products and updates on the OFA website. Maintaining close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives, and complete regulatory filings with the U.S. Securities & Exchange Commission (SEC) and any other applicable securities regulators.
4. Providing cash management and banking services on a centralized basis to all ministries and settlement, payment, financial and reporting, loan administration, information technology and client services to the Treasury Program by implementing effective treasury solutions for the Province and client agencies. Ensuring that the Province has sufficient cash available at all times to meet its financial obligations, and continuing to work with the other ministries to advise on banking and cash management components of government initiatives as well as on changes to accounting standards and their impact on the Province's debt and interest on debt.
5. Advising on and implementing corporate and electricity finance projects and policies by providing analysis and advice on cost-effective borrowing, investing and risk management by public bodies and other financing proposals, and on business cases for business supports. This includes providing advice on transactions that may affect the indebtedness or contingent liabilities of Ontario, including provincial guarantees. In addition, undertaking policy and financial analysis, modelling support and implementation, as required, for electricity financings, policies and initiatives, including ONFA, which could have fiscal, financial and/or economic implications for the Province and/or Ontario Electricity Financial Corporation (OEFC).
6. Ensuring the successful activation of OFA's decentralized Business Continuity Plan (BCP) by reviewing and updating the Corporate BCP Framework and Business Unit plans, as well as conducting corporate-wide BCP test exercises.

OVERVIEW OF 2016–17 RESULTS (TO DATE)

The Ontario Financing Authority (OFA) accomplished the following in support of the overall strategic directions outlined in the 2016–19 Business Plan¹:

1. *Execute the Province's borrowing program*

- As of January 31, 2017, the OFA had completed \$20.3 billion (85 per cent) of its \$23.8 billion (as per the 2016 Fall Economic Statement) long-term borrowing requirement for 2016–17. Approximately 82 per cent of long-term borrowing was completed in the Canadian dollar market.
- The 2016–17 Ontario Savings Bond (OSB) campaign raised \$127 million.
- The objectives set out in the 2016–17 Financing, Debt & Electricity Management Plan, approved by the OFA Board, are on track and expected to be successfully completed by fiscal year end.
- Sufficient liquidity has been available over the fiscal year to ensure the Province has been able to meet all of its financial commitments and payment obligations, largely reflecting the long-term borrowing program being consistently ahead of pace.
- Successfully executed five carve-out deals² to-date for the 2016–17 fiscal year (as of January 31, 2017). Held in-depth discussions with individual carve-out investors.
- On January 26, 2017, the Province successfully priced an \$800 million re-opening of its January 2023 Global Green Bond. The six year bond will help fund twelve green infrastructure projects, with an emphasis on clean transportation and energy efficiency and conservation. The transaction represents the third and largest ever Green Bond offering from the Province of Ontario.
- Provided expertise in accounting for Green Bonds, and set up financial accounting and reporting for these investment vehicles that met the requirements outlined by the investor community. Developed and released a second Green Bond newsletter on December 12, 2016, updating investors on the second Green Bond's use of proceeds, project selection process, as well as, providing project updates on the eight projects selected.
- Analyzed the scope and impact of the Markets in Financial Instruments Directive (MiFID) II and the Bank Recovery and Resolution Directive (BRRD) on the Province and implemented required documentation changes to ensure the Province's continued, uninterrupted access to European capital markets.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

- As of January 24, 2017, through the timing of debt issues and related hedging, the cost of regular borrowing for the Province based on the traditional methodology translated to a percentile ranking of 58th percentile against a statistical distribution of benchmark interest rates. As such the percentile ranking for regular borrowings is outside the designated target band of 45 to 55 percentile. The OFA has introduced a more accurate and comprehensive performance measurement methodology based on the tenor of individual debt issues. Applying this methodology, the cost of regular borrowing for the Province for the same date translated to a percentile ranking of 53rd percentile, falling within the target band of 45 to 55 percentile. The cost of strategic foreign borrowing as of January 24, 2017 translated into a percentile ranking of 54th percentile falling within the designated target band for strategic foreign borrowings of 50 to 75 percentile. The new methodology is yet to be extended to cover strategic foreign borrowings. There were no borrowings on behalf of OEFC.

¹ The OFA's fiscal year end is March 31, 2017, but quantitative performance results are as of December 31, 2016, unless otherwise noted.

² In order to accommodate large bond purchases by a single buyer, a large order procedure was implemented on October 14, 2011. The "carve-out" procedure allows for a portion of a bond issue to be sold to a single buyer.

- The money market performance was \$ \$21.6 million or thirteen basis points (bps) better than the benchmark as of December 31, 2016. The performance is eleven bps better than the upper limit of the target band which is plus or minus two bps of the benchmark.
 - The interest-on-debt (IOD) expense for 2016–17 is currently forecast at \$11,375 million, \$381 million lower than forecast in the *2016 Budget*, primarily as a result of lower than forecast interest rates.
 - Funds were managed on a discretionary basis on behalf of the Pension Benefits Guarantee Fund, Deposit Insurance Corporation of Ontario, Ontario Trillium Foundation, Infrastructure Ontario, and a commitment fund for the Ontario Capital Growth Corporation.
 - Funds were managed on a non-discretionary basis on behalf of the Ontario Immigrant Investor Corporation and Northern Ontario Heritage Fund.
 - With OPG, the Used Fuel and Decommissioning Segregated Funds' investments were managed under ONFA. The Funds have grown from \$16.9 billion at January 1, 2015 to about \$19.2 billion at September 30, 2016. As of November 30, 2016, the rate of return for the Used Fuel Fund for one year was 6.88 per cent compared to the market benchmark of 6.89 per cent and a target rate of return of 5.04 per cent. The rate of return for the Decommissioning Fund for one year was 6.79 per cent compared to the market benchmark of 7.07 per cent and a target rate of return of 5.15 per cent.
 - Contributed to the Province's annual Budget and quarterly finances, including the electricity sector outlook and assets; advised on the potential implications of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions.
 - As part of the Pooled Asset Management Working Group, provided technical investment management expertise on the modelling, design and implementation of a pooled asset management entity for institutions in Ontario's broader public sector. In February 2015, a final report was presented to the Minister of Finance. The OFA has continued to assist the Ministry of Finance (MOF) in implementing the Investment Management Corporation of Ontario (IMCO).
 - Administered borrowing authority obtained under the *Financial Administration Act* (FAA) which is required to carry out the Province's borrowing program. Effected changes to the FAA to better align the foreign currency conversion of debt maturities to be refinanced with the methodology used in calculating the Province's annual borrowing requirement.
3. *Manage key financial relationships*
- Held road shows, investor meetings and conference calls to meet with investors in Canada, the United States, Europe and Asia, and hosted meetings at the OFA offices. Held 139 investor meetings and events as of December 31, 2016, including meetings with 10 new accounts. Provided keynote speakers and panelists at industry conferences in Toronto and New York City. Promoted Toronto as a global financial centre.
 - Continued development of the OFA website to improve functionality, add additional information for investors and provide full mobile accessibility. As part of Ontario's *Open Data Directive*, the OFA published an Open Data Inventory List on its website, which includes all of the datasets the OFA creates, collects and/or manages. The website continues to be an important tool for communicating with investors and the public, receiving 34,792 visitors during the 2016 calendar year. Three CEO's Corner updates were posted over this time. The OFA email alert list had 363 subscribers as of December 31, 2016.
 - Maintained close relationships and held ongoing discussions with credit rating agencies and the banks which underwrite and distribute the Province's bonds in Canada and around the world to keep them apprised of government priorities and initiatives, the *2016 Budget*, the 2015–2016 Public Accounts, the *2016 Ontario Economic Outlook and Fiscal Review* (Fall Statement), the secondary offering of Hydro One upon its public announcement and other quarterly finance releases.
 - Managed increasingly more rigorous regulatory and disclosure requirements, and maintained close relationships with the regulatory bodies in the global capital markets.
 - Monitored credit exposures to banks with which the OFA has relationships. Executed 10 collateralized swap agreements with bank counterparties and are working toward executing additional agreements in order to mitigate credit risk with bank counterparties.

- Conducted comprehensive reviews of potential rule changes affecting the Province domestically and internationally such as the Market Abuse Directive (MAR) in the European Economic Area (EEA) and fee-based changes with Canada's primary central securities depository (CDS), consulting securities regulators and other capital market participants, as appropriate.
 - Monitored and fully complied with international withholding tax requirements in respect of its financial agreements under FATCA and OECD Common Reporting Standard for Entity Tax Residency.
4. *Provide cash management and banking services as well as settlement, payment services, loan administration and financial and reporting services and client services*
- Provided centralized banking services to the Province by strategically managing banking relationships, as well as providing efficient centralized cash management services to the Province, minimizing interest on debt.
 - Continued to provide cash management services to five client agencies and crown corporations, including the Pension Benefits Guarantee Fund, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario.
 - Managed the complex cash flows and settlement requirements associated with the secondary offering of Hydro One ensuring that these very large and time sensitive transactions were completed on a timely and accurate basis.
 - Continued to advise ministries on the application of the Cash Management Directive with regard to Government priorities including the proposed cap and trade mechanism for Ontario.
 - Continued strategic participation and advice to the cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Coordination Office to assist ministries in maintaining compliance with mandatory security requirements for debit/credit card acceptance.
 - After concluding a successful pilot, continued to work with the Ministry of Community and Social Services to replace social benefits payments made by cheque with a reloadable prepaid card product for all unbanked individuals providing both cost efficiencies, and improved services to Ontarians.
 - Provided analysis and advice to Ministry of the Environment and Climate Change (MOECC) on the structuring of the Province's proposed Cap and Trade auction program, which will be linked with those of California and Quebec, to ensure its sound financial management and protection of the Province's interests.
 - Provided advice to MOECC regarding the selection and management of a Financial Services Administrator to support the auction process, and control structure for the auction-related financial services and receipt of public money aspects.
 - Provided advice to the Ministry of Government and Consumer Services (MGCS) on their procurement of corporate purchasing / travel cards as well as analysis of related *Financial Administration Act* considerations.
 - Provided analysis and advice to ministries on payment options for new programs and program changes e.g. Ministry of Transportation Drive Clean program collections via Pre-Authorized Debit, Ministry of Advanced Education and Skills Development online collection of childcare license fees, and online Program Approval and Registration Information System.
 - Based on an in-depth risk and efficiency analysis the Province determined to no longer accept American Express cards as a payment mechanism. The decision generated savings through the elimination of a parallel infrastructure as well as reduced risk by streamlining PCI data security requirements.
 - Working closely with MOF to develop an e-services strategy for tax collection.
 - Continue to engage with provincial and federal counterparts on treasury and cash management program issues throughout the year.
 - Continued to provide timely and efficient settlement and payment services in managing the Provincial and OEFC debt portfolios and Non-Utility Generator (NUG) power purchase contracts.
 - Continued to work with MOF, MGCS and Treasury Board Secretariat (TBS) in advancing the OFA initiative to move pension plan assets that are currently part of the Consolidated Revenue Fund into

more appropriate asset management structures that have the potential to release up to \$50 million in annualized savings.

- The Integrity Commissioner has graduated the OFA from having to submit the travel expenses of the Board, the CEO and his direct reports and the top five employees in a fiscal year, for review by his office. The graduation is a testament to the timeliness and accuracy exhibited by the OFA in providing this information to the Office of the Commissioner over the past few years.
 - As next steps in providing feedback to the Public Sector Accounting Board (PSAB) with regards to its new standard on Financial Instruments, the OFA has retained Deloitte Inc. to consult with other provinces and provide feedback to PSAB on provincial concerns with the proposed standard.
 - Continued to provide accurate agency financial statements, as well as reported provincial debt, derivatives and investments in accordance with strict legislated timelines. As in past years, the OFA's 2015–16 Financial Statements received an unqualified opinion from the Office of the Auditor General. The Auditor General's annual review of the OFA's financial reporting of the Province's debt and interest on debt presented in the 2015–16 Public Accounts continued to be free of material issues.
 - Renewed and administered long and short term credit facilities between the Province and Ontario Infrastructure and Land Corporation ("OILC").
5. *Advise on and implement corporate and electricity finance projects and policies*
- Advised on capital projects and financing options for ministries and public sector entities.
 - Continued the review of business cases for OFA borrowing requests from public bodies including a number of Ontario colleges, school boards and corporations, expected to result in a total of \$400 million in new long-term loans. Loan program annual savings are estimated to be at least \$30 million per year for a total of approximately \$230 million in cumulative savings to date.
 - Continued to provide advice on municipal debt issuance and investment activities, including the expansion of the Prudent Investor standard to other large municipalities and on the Ministry of Municipal Affairs and Housing new municipal revenue tools strategy.
 - Monitored terms and conditions of loans and loan guarantees and reviewed proposals and provided advice to the Deputy Minister and the Minister on proposed options to amend the loan guarantees and associated loan and contracts.
 - Provided analysis and advice on the Province's investment in the Ontario Venture Capital Fund, the Northleaf Venture Catalyst Fund, Ontario Emerging Technologies Fund and the ScaleUp Ventures Fund. The CEO serves on the Board of Directors, and is a Vice-Chair of, the Ontario Capital Growth Corporation (OCGC), which manages the Province's interests in these four funds.
 - Advised on and reviewed proposed contingent liabilities and indemnity agreements put forward by ministries and public bodies that would increase the indebtedness of the Province, including contingent liabilities and indemnities for major infrastructure projects, accommodation leases or broader public sector borrowing.
 - Provided analysis and advice to the MOECC on the design of the Province's cap and trade auction program as well as the procurement of a financial services provider to the WCI Inc. to provide administrative support to that program.
 - Provided analysis and advice to the MOECC on the establishment of a new climate change agency tasked with the implementation of the ministry's carbon reduction programs.
 - Providing analysis and advice on the application of Section 28 of the *Financial Administration Act* to contracts entered into by public entities that would increase the indebtedness or contingent liabilities of the Province.
 - Led the development of a new protocol for the sharing of powers and responsibilities under Section 28 of the *Financial Administration Act* between the Minister of Finance and the President of Treasury Board.
 - Provided advice to the Ministry of Research, Innovation and Science (MRIS) on private sector refinancing of the MRIS-MaRS Phase 2 loan.

- Provided advice to ministries, Crown agencies and other public entities on loan structuring and credit enhancement strategies.
- Provided advice to the MOF's Office of Economic Policy regarding the Bank of Canada's proposal to extend an Emergency Lending Facility to all provincial credit unions.
- Provided analysis and advice in support of the Ministry of Energy moving forward with secondary offerings of Hydro One shares including, in 2016-17, the secondary offering executed in April 2016.
- Provided advice alongside MOF to help facilitate discussion and progress regarding the agreement-in-principle with First Nations – in support of broadening the ownership of Hydro One by the Province.
- Through a working group, working with Infrastructure Ontario and other areas of government, provided analysis and advice in support of unlocking the value of the Province's real estate assets, including the sale of the LCBO's head office lands in June 2016, and the sales process for OPG headquarters properties.
- Provided policy analysis and advice on the implementation of the Trillium Trust, and proposed framework for making disbursements from the Trillium Trust to receiving ministries in support of public infrastructure investments.
- Provided financial analysis and advice on continuous management and implementation of the commercial agreement with Borealis/Teranet for the electronic land registry system.
- CEO served on the Assistant Deputy Ministers' review committee of the Jobs and Prosperity Fund.
- Provided analysis, advice, and the fiscal impact of the electricity sector and asset optimization initiatives for the Province's annual Budget, Fall Statement, Public Accounts and quarterly finances.
- Supported electricity policies and initiatives, focusing on potential fiscal, financial, and economic impacts on the Province and OEFC, including analysis and advice to support implementation and expansion of the Industrial Electricity Incentive (IEI); expanding the Industrial Conservation Initiative (ICI); ongoing implementation of the Northern Industrial Electricity Rate (NIER) program and its review process, the rebate for residential, small business and farm electricity bills of an amount equal to the eight per cent provincial portion of the Harmonized Sales Tax (HST) or the Ontario Rebate for Electricity Consumers (OREC); and providing analysis and advice on the stranded debt of the electricity sector.
- Provided analysis and advice on proposed new loans facilities and continued to implement new and existing loan agreements between OEFC and OPG related to supply projects and refinancing debt maturities.
- Renewed and continued to implement a credit facility between OFA and the Independent Electricity System Operator (IESO) for liquidity purposes and also provided analysis and advice to ensure financial oversight / governance of these credit facilities following the merger of the OPA and IESO.
- Continued to implement the Aboriginal Loan Guarantee Program (ALGP) to facilitate Aboriginal equity participation in renewable energy and transmission projects. As of December 31, 2016, eight guarantees totalling almost \$240 million have been approved under the ALGP. All applications are reviewed in conjunction with one or more third party due diligence providers.
- Continued to implement the ONFA, including monitoring the segregated fund values, monitoring, reviewing and providing analysis and advice on the Province's approval of OPG's ONFA Reference Plan submission in 2016 and related submissions, reviewing for approval OPG's ONFA Annual Budget submissions and disbursement eligibility and requests, and monitoring the provincial guarantee provided under ONFA to the Canadian Nuclear Safety Commission (CNSC) as part of OPG's financial guarantee requirement to the CNSC.
- Provided analysis and advice on electricity supply initiatives, including nuclear refurbishments.
- Provided continuous support on discussions related to developing infrastructure and projects in the Ring of Fire.
- Provided analysis and advice on policies to support the consolidation of Ontario's electricity Local Distribution Company sector.

6. *Ensure the successful execution of the OFA's decentralized Business Continuity Plan (BCP)*
 - Reviewed and updated the Corporate BCP Framework.
 - Business Units conducted monthly tests, ensuring their respective plans are reviewed and updated.
 - Carried out two corporate-wide BCP test exercises, and implemented improvements to the Plan based on the results of these tests.
 - Reviewed corporate BCP Command and Support Team membership.

2017–20 OBJECTIVES

Key objectives for 2017–20 include the following, as set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016:

1. Execute the Province's borrowing program
2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook
3. Manage key financial relationships
4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services
5. Advise on and implement corporate and electricity finance projects and policies

In addition to the foregoing, the OFA has also identified the following additional key objective:

6. Ensure the successful execution of OFA's decentralized Business Continuity Plan

Total Revenues and Expenditures

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017-18	2018-19	2019-20
Total Revenue	30,071	30,117	30,804	30,856	31,290
Total Expenditure	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

Further detail can be found in the Financial Budget contained in this plan.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval. Note that as part of the 2016–17 PRRT process, Treasury Board disallowed the OFA request for a two per cent inflationary increase in its budgeted allocations for the out years.

MANDATE AND GOVERNING LEGISLATION

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). CIPA sets out the objectives of the OFA. The OFA:

- conducts borrowing and investment for the Province of Ontario and manages the Provincial debt;
- provides cash management and other financial services for the Province;
- advises ministries, Crown agencies, and other public bodies on financial matters; and
- assists Crown agencies and other public bodies to borrow and invest money through external sources or through the OFA.

The OFA also provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario or OILC).

The FAA also sets out certain financial powers which OFA employees exercise on behalf of the Minister of Finance to carry out the Province's borrowing, manage the Province's debt and invest its liquid reserves.

OVERVIEW OF CURRENT AND FUTURE PROGRAM AND ACTIVITIES AND IMPLEMENTATION PLAN: 2017–20

Activities will focus on supporting the following strategic directions:

1. *Execute the Province's borrowing program*

Overview

The OFA endeavours to ensure that borrowing by the Province and OEFC is cost-effective. Total long-term public borrowing is forecast at \$23.3 billion in 2017–18 and \$28.7 billion in 2018–19. This year's objectives may be challenging to implement due to the state of the global economy/market and the resource constraints within which the OFA is operating. Furthermore, borrowing blackouts can limit the amount of time in which the OFA can access the market. This may require borrowing in excess of \$3 billion per month when these blackouts are not in effect in order to complete the annual borrowing requirement. Other challenges include:

- continued high amount of borrowing required for the Province, including the amount that will have to be undertaken outside Canada;
- competition in the markets from other large domestic and international borrowers;
- evolving regulatory requirements such as Basel III, Dodd-Frank and EMIR that continue to make hedging of foreign debt more expensive and a challenge to execute in the size required by the Province;
- potential challenges for Ontario's credit rating. A downgrade may result in borrowing costs increasing; and
- management of downgrading or failure of counterparties, and continued implementation of collateralized swaps to mitigate credit risk.

Implementation Plan

- Develop the annual Financing, Debt & Electricity Management Plans for OFA Board approval and transmission to the Minister. These plans provide detail on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
- Meet the Province's funding requirements, anticipated to average about \$25 billion annually for the business plan period, in a cost-effective and prudent manner.
- Manage the Ontario Savings Bond campaign.
- Continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

Overview

The OFA manages the debt and liquid reserve portfolios, as well as centralized/segregated investment funds, for various public bodies, and jointly manages the Ontario Nuclear Funds with OPG. Financial risks associated with capital market activities are mitigated by adhering to prudent risk management policies which minimize financial risk by ensuring exposures and losses remain within approved limits. Risk management policies and program exposure limits are approved by the OFA Board of Directors. The OFA also contributes interest on debt, borrowing and debt management objectives, and electricity sector fiscal impact projections to the Budget, Fall Statement and other quarterly financial updates.

Implementation Plan

- Generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds, for various public bodies. Manage ONFA-related investments, working together with OPG.
- Ensure interest rate, foreign exchange and credit exposures are within approved policy limits.
- Contribute to the Province's annual Budget, Fall Statement and quarterly finances, including the electricity sector outlook; advise on the potential impact of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions. Continue playing an important role in the development of the Province's annual Budget and quarterly statements through the provision of timely and accurate financial information, and preparation of the Borrowing and Debt Management section of the Budget and Fall Statement.
- Continue with the implementation of the new methodology based on assessing individual debt issues by tenor, to measure the performance of the borrowing program.
- Continue to implement applicable changes as per financial and regulatory reform requirements including evolving effects from Basel III, EMIR and Dodd-Frank. These regulations are expected to continue to make the OFA's hedging process more complex. Hedging may also continue to become more expensive if proposals such as financial transaction taxes or mark-to-market derivatives taxes are legislated and implemented in Europe or the United States.

3. Manage key financial relationships

Overview

The OFA ensures investors and the financial community in Canada and abroad receive financial updates on a timely basis to make informed decisions about Province of Ontario debt securities. Investor Relations activities support borrowing program objectives by maintaining and broadening the Province's investor base. The OFA also ensures credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these factors in their reports and rating decisions.

The OFA manages the government's relationships with financial institutions, primarily the major Canadian and global banks, their investment dealer subsidiaries, and custodial and fiscal agents. This involves the acquisition and oversight of cost-effective products and services for the Province and certain Crown corporations.

Implementation Plan

- Support the Province's borrowing program by building and maintaining relationships with investors in existing and new markets. Provide Investor Relations information products, including updates to the OFA website, on a timely basis.
- Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives.
- Manage Ontario's relationships with banks, financial service providers and investment dealers.
- Complete regulatory filings with the U.S. Securities & Exchange Commission (SEC), United Kingdom Listing Authority (UKLA), Luxembourg Stock Exchange (LuxSE), Australian Securities Exchange (ASX) and any other applicable securities regulator. Conduct due diligence conference calls, as required, with the dealers and underwriters of the Province's debt securities offerings and their legal counsel.
- Implement and maintain collateralized swap agreements with bank counterparties to limit potential financial losses as a result of a credit event.

- Manage changes in financial and regulatory reform, liaising with regulators and legal counsel, as required.
- 4. *Provide services related to cash management, banking, settlement, payment and financial and reporting*

Overview

The OFA provides centralized banking and cash management services to the Province. The effective provision of these services allows for the efficient delivery of provincial services and contributes towards minimizing interest on debt expenditures. The OFA is responsible for settlements, payments and accounting/reporting functions associated with the Province's and OEFC's debt management programs, as well as agency financial reporting.

Implementation Plan

- Identify and implement effective treasury solutions for the Province and client agencies.
- Ensure that the Province has sufficient cash available at all times to meet its financial obligations.
- While compliance with PCI Data Security Standards is now in its sustainment phase, the OFA will continue to work with the other OPS stakeholders and the credit/debit card acquirer to ensure that the mandatory external reviews continue to report that that Province is in compliance with all applicable PCI standards.
- Continue to work with American Express and TD Merchant Services, the Province's card acquirer, to explore options for the continued acceptance of American Express cards via the acquirer's existing systems for Visa and MasterCard. The new arrangement would enable Amex cards to be used to obtain Provincial goods and services in a way that mitigates risk and increases efficiency for the Province.
- After the completion of a successful pilot, continue to work with the Ministry of Community and Social Services on the rollout of a reloadable payment card for unbanked benefit recipients under the Ontario Disability Support Program.
- Continue to advise ministries and agencies on the banking and cash management components of government initiatives including modernization and suitable banking options, as well as associated legal and regulatory aspects.
- Continue to collaborate with industry associations and provincial and federal jurisdictions on modernization initiatives and issues unique to the public sector.
- Continue the delivery of timely and accurate settlement/payment services for the Province and OEFC, including OEFC power supply contract settlements.
- Continue to work on the replacement of the Public Bodies Financing System with a new, internally developed/externally sourced system capable of handling all loans issued by the OFA and the Province. Progress is expected to proceed according to schedule and it is anticipated that the new system will be operational in 2017–18.
- Continue to work with the Ontario Pension Board, MOF Income Security and Pension Policy Division and TBS on the first phase of regularizing the management of various pension plans whose assets reside in the Consolidated Revenue Fund. The first phase is aimed at transferring the regulated portion of the assets of the Judges' Pension Plan to the IMCO generating annualized savings estimated to be \$15 million.
- Work with the Office of the Provincial Controller and OPG to develop options to address the potential under PSAB for Public Accounts consolidation adjustment impacts from OPG and Hydro One results under the International Financial Reporting Standards.
- Provide timely and reliable net debt and total debt estimates for the 2017 Annual Budget and the Province's quarterly reports during the fiscal year including the Fall Economic Statement.

- Continue to provide timely and accurate financial reporting for the Province on debt, derivatives and investments. Continue to provide timely and accurate agency financial statements that pass scrutiny of the OFA Board and the Office of the Auditor General.
- Continue to work with the Office of the Provincial Controller on providing value-added feedback on Chapter 2 of the Annual Report of the Auditor General of Ontario that deals with Ontario's Public Accounts.
- Continue to monitor and assess any new accounting developments of the International Accounting Standards Board, the Financial Accounting Standards Board in the U.S., the Accounting Standards Board and the PSAB of the Chartered Professional Accountants of Canada that affect reporting for the Province and its agencies.
- Continue to work with Deloitte Inc. in consulting with the accounting and borrowing communities of the other provinces towards providing PSAB with concerns expressed by these jurisdictions and Ontario. Also with Deloitte Inc., collaborate on developing options that address the provinces' concerns. Continue to liaise with the Office of the Provincial Controller and, where required, the Office of the Auditor General of Ontario in communicating with PSAB.

5. *Advise on and implement corporate and electricity finance projects and policies*

Overview

The OFA provides financial modelling, analysis and advice to the Ministry of Finance, other ministries, OEFC, Crown agencies, and other public bodies, on financial policies and projects, electricity sector policies and initiatives, and borrowing from capital markets. The OFA also provides assistance in structuring and completing financial transactions, and securing and using private sector financial advisers. The OFA has been leading the implementation of the Trillium Trust and will also continue to work with the Ministry of Finance, other ministries, and Infrastructure Ontario on on-going asset optimization initiatives, including unlocking the value of certain real estate assets. The OFA is providing analysis and support as the Province moves forward in selling up to 60 per cent of its shares of Hydro One over time.

The OFA will also continue to support and facilitate the implementation of a number of other government initiatives, including the Cap and Trade Program and investing in Ontario's venture capital sector.

Implementation Plan

- Provide analysis and advice on business cases and other financing proposals. Develop the structure and negotiate the detailed terms and conditions of transactions to minimize costs and best meet market expectations.
- Provide advice on cost-effective borrowing, investing and risk management by public bodies.
- Provide advice on transactions requiring a provincial guarantee or those that may otherwise increase the indebtedness or contingent liabilities of Ontario.
- Develop interest rate and other borrowing, investing and risk management policies, and advise ministries, agencies and public bodies on interest rates and other financing issues.
- Support initiatives for Ontario's various industry sectors.
- Provide continued support for the government initiative on OFA loans to public bodies.
- Provide support to the government on Ministry of Finance loans and loan guarantees as required.
- Continue to provide advice to ministries, Crown agencies and other public bodies on financing, loan structuring and credit enhancement strategies.
- Provide advice as required on evaluating the Province's assets, including investments in its business enterprises, and analysis and advice on asset optimization to enhance efficiency and maximize value.

- Provide policy and financial analysis, and modelling support, as required, for electricity policies and initiatives that could have fiscal, financial and/or economic implications for the Province and/or OEFC, including the following:
 - *The Ontario Rebate for Electricity Consumers Act, 2016.*
 - Ongoing implementation of the Industrial Electricity Incentive program.
 - Ongoing implementation of the NIER program.
 - Expanding the Industrial Conservation Initiative.
 - Electricity supply and conservation initiatives.
- Provide financial due diligence and advice to the Minister of Finance on applications received under the ALGP.
- Monitor and provide electricity sector fiscal and financial projections for the Province and OEFC, including analysis and advice to the Minister of Finance on the stranded debt, as well as continued reporting on OEFC's revenue sources (e.g. the debt retirement charge (DRC) for non-residential users, now legislated to end on April 1, 2018, and payments in lieu of taxes) and expenses (e.g. interest on debt).
- Provide analysis and advice to support the effective administration of ONFA and other initiatives related to nuclear liabilities, including monitoring and reviewing OPG's implementation of its ONFA Reference Plan as updated from time-to-time, approval of yearly ONFA budgets including investment related expenses, reviewing OPG's expected financial guarantee submission to the CNSC expected in 2017, including reviewing, monitoring, and seeking approval on any implications on a Provincial guarantee to the CNSC, as provided for under ONFA.
- Provide analysis and advice on nuclear supply, financing and cost recovery issues, including for nuclear refurbishments.
- Continue to monitor, review and support policy discussions on developing the Ring-of-Fire.
- Continue to work closely with staff at the MRIS and OCGC on approaches for managing the Province's investment in the Ontario venture capital sector. Support the CEO's role as Vice Chair of the OCGC Board.
- Provide analysis and due diligence related to Jobs and Prosperity Fund applications and relevant Eastern Ontario Development Fund and Southwestern Ontario Development Fund applications.
- Continue to support the government's asset optimization initiative of broadening the ownership of Hydro One by providing financial analysis and advice, and dedication of net revenue gains from these transactions to the Trillium Trust to support investments in infrastructure.
- Provide coordination and oversight of certain real estate asset optimization initiatives, such as, the divestment of OPG's head office properties, and Seaton and Lakeview lands.
- Lead implementation of the Trillium Trust to help support investments in transit, transportation and other priority infrastructure.

6. *Ensure the successful activation of OFA's decentralized Business Continuity Plan (BCP).*

Overview

The BCP remains in place and is updated as required to be successfully activated so staff can complete critical time-sensitive tasks in the event of a business disruption.

Implementation Plan

- Review and update the Corporate BCP Framework.
- Review and update Business Unit plans.
- Plan and conduct corporate-wide BCP test exercises.

- Review corporate BCP Command and Support Team membership.

Implementation of the above strategic directions will require regulatory compliance and reliable information technology.

RISK IDENTIFICATION AND ASSESSMENT

Summary Table

Accountability	Risk Assessment	
P Primary	L Low	H High
X Additional	M Medium	EH Extremely High

Risk Assessment Summary		Accountable Business Division						Risk Assessment		
		Capital Markets	Corporate & Electricity Finance	Finance and Treasury	Legal	Risk Control	Strategic Corporate Services	Likelihood	Impact	Overall Assessment
Strategic Risks	Strategic / Policy Risk	P	X			X		L	EH	H
	Meeting Stakeholder Expectations	P		X				M	EH	H
	Public Image	P		X				L	H	M
	Quality of Relationship with Stakeholders	P		X		X		L	H	M
Accountability / Governance	Governance, Information, and Regulatory Compliance	X		P	X			L	H	M
	Risk and Issue Management			X		P	X	L	EH	M
	Statutory Requirements are met				P			L	H	M
	Reliability of Financial Systems			P				L	H	M
Operational	An economic slowdown straining the fiscal plan, thus affecting the borrowing program	P						M	H	H
	Financial Market Risk	X				P		M	H	H
	Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt	P						L	EH	H
	Risk of credit rating downgrade	X				P		M	H	H
	Credit Risk	X				P		L	H	M
	Electricity Policy and Price Risk		P					M	M	M
	Operational, including systems, internal control, and reputation risks	X	X	X	X	X	P	L	H	M
	Service Providers (e.g. custodians, fiscal agents, banks, etc.)			P				L	M	L
	Low investment returns or inadequate investment controls on nuclear funds	P						M	H	H
	Default on Loans to Public Bodies		P					L	L	L
	Default on Guarantees under the ALGP		P					L	L	L
	Increased borrowing to fund loans to public bodies		P					L	L	L
	Government Cost Constraints			P				M	H	H
	Employee Fraud			P				L	M	L
Workforce	Human Resource Risk	X	X	P	X	X	X	M	EH	H
Information Technology and Infrastructure	Privacy and Security						P	L	M	L
	Business Continuity						P	L	H	M
	Procurement			X			P	M	M	M

Risk Identification, Assessment, Mitigation Strategies

The following section identifies potential risks that could impact the entire organization in its ability to successfully deliver its programs and activities on behalf of the Province.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: STRATEGIC RISK AREA: Strategic: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with those of the OPS). The risk that strategies and policies will fail to achieve required/targeted results. The risk of failing to provide value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.					
Strategic/ Policy Risk Primary Accountability: Capital Markets Division	Strategies and policies fail to achieve required results. Prime examples are failing to meet the borrowing requirements and failures in implementing core risk management strategies.	<u>LOW</u> Past experience indicates that the likelihood of major strategic failures is relatively <u>low</u> as they cannot always be eliminated. There are elements of borrowing and risk management which are outside the Province's control which can negatively impact required results. For example, financial conditions could result in higher interest costs or interest rate risk than anticipated or refinancing risk in future years may be much higher than desired if investor demand for longer term bonds is substantially reduced.	<u>EXTREMELY HIGH</u> The financial consequences of strategic failures in borrowing or risk management strategies and associated policies can be <u>extremely high</u> , and the annual Financing, Debt & Electricity Management Plan outlines strategies which attempt to address the challenges, including contingencies for unexpected events. In addition, management monitors major market and policy developments throughout the year very closely and will develop and implement new strategies and policies if conditions warrant. Even though the likelihood of major strategic failures is low, the impact remains extremely high resulting in an overall high risk assessment.	<u>HIGH</u>	Strategic plans and policies to mitigate strategic and policy risk are initially developed and implemented in a thorough manner as outlined in the OFA's annual Financing, Debt & Electricity Management Plan ("the Plan"). This includes an analysis of risk factors and contingency plans. The Plan is approved by the respective Boards (OFA and OEFC) and receives input from Board members. Market conditions and policy developments are monitored on a continual basis throughout the year to identify new and emerging developments which could impact strategic and/or policy risks. Existing control strategies are modified as required to mitigate adverse developments. Procedures are in place to ensure that staff are aware of relevant policies. Policy violations are rare, and a robust control framework exists to identify violations quickly. Most violations would not have a large enough impact to threaten achieving required strategic results.
Meeting stakeholder expectations	The risk that the OFA may fail to meet stakeholder expectations, including those of the Province and other public bodies.	<u>MEDIUM</u> There is a <u>medium</u> likelihood of failure to meet stakeholder expectations and performance	<u>EXTREMELY HIGH</u> Given that the impact of not meeting stakeholder expectations can be <u>extremely high</u> , combined with a	<u>HIGH</u>	An analysis of risk factors and contingencies is included in the OFA's annual Financing, Debt & Electricity Management Plan. This analysis is revisited throughout the year.

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Primary Accountability: Capital Markets Division	Stakeholder expectations include strategic/policy risk factors as well as the risk of failing to meet performance benchmarks.	benchmarks. Market factors tend to be relatively unpredictable and many factors are out of OFA's control. The current environment of expanding service requirements and constrained resources adds some risk; however, it is expected to be minimal. Based on past experience, it is expected that most stakeholder expectations will be met.	medium likelihood the net result is a high risk assessment. The impact of a one percentage point increase in yields was estimated to be \$350 million for 2016–17. Although the OFA has been able to extend the borrowing term in recent years, interest rate risk will remain elevated for several years. Continuous communication with the Deputy Minister and Minister ensures that expectations for the Province are clearly understood. Commitments are made after thorough and careful analysis to ensure that resources and expertise are in place to meet those expectations. Close and continuous communication and meetings with relevant public bodies (e.g. Agencies) who use our services ensures that expectations and service requirements are clearly understood. In addition, formal service level agreements (e.g. investment management agreements) have been developed which clearly outline the services and benchmark performance standards.		Given the relatively unpredictable nature of market factors, ongoing monitoring of market and policy factors provides a level of risk mitigation. Continuous dialogue with stakeholders and regular reporting are also useful in keeping abreast of both expectations and performance. Emerging issues which may affect expectations are identified and are regularly reported to the Deputy/Chair as well as the Board (OFA and OEFC). This provides greater assurance that expectations will be met or managed through approved mitigation strategies. Meeting performance benchmarks for the Province and other public bodies also depends on adequate resources being available to maximize performance. This includes information systems services, and most importantly, staff. A highly educated and experienced workforce provides a higher likelihood that stakeholder expectations will be met. The OFA works to attract and retain highly qualified staff.
Public image Primary Accountability:	The risk that the OFA may damage its reputation with stakeholders and third party service providers.	<u>LOW</u> The likelihood of reputational risk to the OFA is low.	<u>HIGH</u> The impact of image problems can be high which combined with a low	<u>MEDIUM</u>	Public image risk is mitigated through a host of strategies: i) a strong policy framework to provide greater information to staff to make them aware of potential public image problems; ii) strong internal controls to reduce the risk of policy violations and

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Capital Markets Division		There are extensive policies to govern staff conduct including, with respect to conflicts of interest, procurement and workplace harassment. In addition, procedures are in place to ensure that staff are aware of all policies. There are also regular reporting requirements and internal controls to reduce the potential for policy violations. Dealings with the press are handled through official MOF communication staff and investor and other stakeholder information is handled with extreme care. Accordingly, the likelihood of reputational risk problems with stakeholders and service providers is low , although mistakes can happen and there are certain factors which the OFA cannot control.	likelihood results in an overall medium risk assessment.		adverse information releases; iii) public communication protocols to reduce the risk of incorrect and damaging information releases; iv) an investor relations program which is responsive to investor needs and responds to investor requests for information promptly; v) ongoing dialogue with dealers to keep abreast of information in the marketplace relating to both Ontario and the OFA; and vi) a management structure and culture which promotes security of information and extreme care in disclosing information in a public forum. Strategies iii-v involve constant communication with external stakeholders. This feedback loop provides the OFA with a method of assessing the organization's public image. The OFA has a comprehensive procurement policy that ensures that its suppliers and service providers are selected in a fair manner. When appropriate, the OFA requires that service providers obtain security clearance. OFA contracts with service providers address confidentiality and contract precedents generally require approval before a contractor may use its association with the OFA for any purpose. All substantive contracts that Capital Markets enters into in the name of the OFA must be reviewed by the OFA Legal Branch. All substantive contracts that Capital Markets enters into in the name of the Province, must be reviewed by MOF Legal.
Quality of relationship with stakeholders	The risk that the OFA's stakeholder relationships are poorly managed.	<u>LOW</u> The likelihood of failure managing OFA's stakeholder relationships is	<u>HIGH</u> The quality of the business relationships with stakeholders that the OFA is	<u>MEDIUM</u>	The OFA provides relevant, non-confidential information to investors in a fair and transparent manner, including information pertaining to the Budget and quarterly finances. Confidential information is handled in a manner consistent with laws and regulations, such as the <i>Public</i>

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Primary Accountability: Capital Markets Division		<u>low</u> as the OFA strives to deal with all of its stakeholders in a fair, transparent and responsive manner.	engaged in such as investors, credit rating agencies, dealers and employees can have a high impact on the success and cost of OFA activities. However, the likelihood of failure in these activities is relatively <u>low</u> which results in an overall medium risk assessment.		<i>Services Ontario Act, 2006</i> and the <i>Securities Act, 1990</i>. The annual Investor Relations Plan is developed each year with the goal of providing updates to investors, both domestic and international, on a regular basis through outreach and information products. Requests for information or meetings from investors are responded to very promptly. The quality of the Province's relationships with stakeholders is constantly monitored. Should the strategies in the annual Investor Relations Plan fail to achieve the desired relationship levels, the OFA can choose to engage additional financial dealers or more senior Ministry of Finance representatives to participate in its investor outreach activities. Dealers are utilized in a fair and objective manner for bond issues. A syndicate evaluation is used to rank domestic dealers objectively, and commissions for domestic bond issues are based on this annual evaluation. Dealers thus know the OFA's service priorities and understand their bond issue allocations for the year. International issues also utilize dealers based on their level of service and strengths they bring to particular markets and issuance opportunities. The OFA continuously communicates with its dealers and also has regular meetings with them, and thus relationship issues tend to be dealt with quickly. Given the high importance of Ontario's credit ratings to its borrowing program, the OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to requests for information, and facilitates participation of more specialized or senior government officials as required.

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Risk Category: ACCOUNTABILITY / GOVERNANCE Governance/ Accountability/ Organizational Risk: Risk that the organizational structure, accountabilities or responsibilities are not defined, designed, communicated or implemented to meet the organization's objectives, and/or that culture and management commitments do not support the formal structures. Risk of conflict of interest for board members. Inadequate ethics / codes of conduct. Inadequate definitions of roles and responsibilities. Risk of failure to comply with administrative requirements, such as directives. Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, Memorandum of Understanding or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.					
Governance, Information and Regulatory Compliance Primary Accountability: Finance and Treasury Division	The risk that oversight and governance responsibilities are not clearly defined; the risk that internal and external information produced or used is incomplete, out-of-date, inaccurate, irrelevant or inappropriately disclosed.	<u>LOW</u> The likelihood of failing in this area is <u>low</u>. Various policies and procedures define roles and responsibilities required for effective governance, including oversight by the OFA Board, chaired by the Deputy Minister of Finance, and largely comprised of independent, external members; and reporting requirements to the Minister of Finance. Furthermore, the audits by Internal Audit Division that cycle over all major functions of the OFA include a review of the associated policies and procedures and to date no material gaps have been identified. All audit recommendations are presented to the OFA ARMC and addressed within reasonable timeframes.	<u>HIGH</u> The impact of failing in this area is <u>high</u>; however, combined with the low likelihood of this happening results in a medium risk assessment	<u>MEDIUM</u>	Regular and special meetings of the OFA Board and its Committees, comprised of the Audit and Risk Management Committee (ARMC), Human Resources and Governance Committee (HRGC) and the ONFA Investment Committees (ONFA IC). The Deputy Minister of Finance is, pursuant to CIPA, the Chair of the OFA Board, which establishes a clear governance framework for OFA management and accountability to the Minister of Finance. The OFA uses secure communication procedures with internal and external parties; it also undertakes effective oversight of service providers, reconciliation processes, stringent disclosure policies, staff learning and development, and timely filing of regulatory reports.

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Risk and issue management Primary Accountability: Risk Control Division Secondary Accountability: Finance and Treasury Division	The risk that the OFA may not effectively manage and mitigate financial risks including fraud risk.	<u>LOW</u> A review process established at the OFA that includes daily compliance monitoring, division of responsibilities, and a highly-developed and rehearsed response plan for emergencies results in a <u>low</u> likelihood.	<u>EXTREMELY HIGH</u> The OFA is a major participant in capital markets and has extensive dealings with banks on behalf of the Ontario government. As a result, the potential impact for errors and omissions is <u>extremely high given the associated high dollar value.</u> The extensive mitigation strategies employed by the OFA however, reduce the overall assessed risk to Medium.	<u>MEDIUM</u>	Financial risks associated with the OFA capital market activities are managed through the OFA risk management framework, which includes policies that are updated, reviewed by the Ontario Internal Audit Division and approved by the Board on an annual basis. Compliance with policies is monitored through a daily reporting cycle including where applicable on a real time basis, and credit risks are also monitored in real time. Fraud: Division of responsibilities between divisions to create a separate front, middle and back office for capital markets transactions and appropriate separation of duties and signing authorizations within divisions reduce risk of fraud. All staff is encouraged to report any wrongdoing at all times and senior management is asked to confirm quarterly whether they are aware of any wrongdoing. Issues management: In addition to a monthly Capital Markets update letter, the CEO also reports on any issues or concerns quarterly to the Board and has regular meetings with the Chair. Division Heads/Directors report quarterly to the Board on their area's progress in achieving the objectives identified under the Annual Business Plan. The OFA's financial statements are prepared and presented on a quarterly basis to the ARMC and the Board. They are also shared with senior staff of the Office of the Auditor General. The OFA provides the interest-on-debt, debt and derivative information that is presented in the Public Accounts of the Province. The numbers and the process including the

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					underlying internal controls are audited annually by the Office of the Auditor General. Up to now, no material issues have been identified as part of this audit. OFA prepares issues notes, and feeds into the Ministry's communications branch for issues management and to address contentious issues. The Ontario Internal Audit Division develops a three year audit plan for the OFA that is updated annually. Audits under this plan, as well as special reviews as and when required provide an overall comfort level. The ARMC conducts in camera sessions with internal audit, staff of the Office of the Auditor General and the OFA's Chief Financial and Risk Officer at each quarterly meeting during which they are free to candidly raise any concerns about overall risk and issues management issues at the OFA. To avoid financial risk resulting from an inability to function during an emergency, the OFA has a highly-developed and rehearsed response plan for emergencies, addressing key risks such as fire, terrorist attack, pandemic or other threat. The work of the OFA can be carried out with all staff working from home. The OFA also maintains a collocate site at a remote location that houses a continuously available, mirrored IT infrastructure. Staff are subject to randomly declared, OFA-wide, work-from-home drills at least annually. OIAD reviews and comments on business continuity test results.

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Statutory requirements are met Primary Accountability: Legal Division	Risk of non-compliance with statutory requirements	<u>LOW</u> The likelihood of non-compliance is considered <u>low</u> because OFA staff have experience and awareness regarding legal compliance in relation to the performance of their jobs. While regulation in some areas (such as in capital markets and the banking and payment card industry) is complex and continues to evolve, program areas have ready access to legal advice.	<u>HIGH</u> Impact is considered high since failure to comply with a statutory requirement could negatively affect the reputation of the OFA and the Government. Also, violations relating to capital markets operations could have serious financial implications. Combined with a <u>low</u> likelihood, the resulting overall risk assessment is medium.	<u>MEDIUM</u>	Currently, the OFA and Ministry of Finance Legal Branches advise of statutory requirements and changes affecting OFA operations and also are available to advise on steps to effectively address any non-compliance. Information on legal requirements relating to Public Servants is distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO and the Board of Directors. CEO/Board direct remedial action (which may include learning and development). Education is encouraged and Divisions budget for necessary learning.
Reliability of financial systems Primary Accountability: Finance and Treasury Division	The risk that the OFA's financial information and reporting system is not reliable or fails to meet quality standards.	<u>LOW</u> The review process that the OFA has established including audits by the Internal Audit Division and the Office of Auditor General of Ontario ensures that the likelihood of occurrence is <u>low</u> .	<u>HIGH</u> While the impact of less than reliable financial information is indeed <u>high</u> , the low likelihood of this happening results in an overall medium risk assessment.	<u>MEDIUM</u>	The OFA has well-established processes and procedures for monitoring and reporting on its financial performance to its ARMC and Board of Directors and to the ministry as well as the Office of the Treasury Board. OFA financials are prepared on a quarterly basis for discussion, and shared with the staff of the Office of the Auditor General and approval by the ARMC and Board of Directors. In addition the OFA financials are audited annually by the Office of the Auditor General who has provided unqualified opinions on all past financials. Staff of the Office of the Auditor General also audit, on an annual basis, the OFA's work on the Province's debt and interest on debt. This annual audit includes reviewing the underlying systems and internal controls. Up to now, no material issues have been identified and the OFA has implemented all recommendations arising from this audit. Changes to accounting pronouncements are also addressed during the quarterly discussions with the ARMC and

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
					the Office of the Auditor General. Annual budgets and audited financials are submitted to the Ministry as per TBS requirements. A further level of assurance exists as a result of the work carried out by the Ontario Internal Audit Division (OIAD). OIAD develops a 3 year audit plan with consultation from Division heads and all finding and recommendations are presented to the Audit and Risk Management Committee of the OFA Board. The OFA's progress in implementing recommendations are also presented on a quarterly basis to the same committee.
Debt and Risk Management Risk Category: OPERATIONAL RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.					
An economic slowdown straining the fiscal plan, thus affecting the borrowing program. Primary Accountability: Capital Markets Division	Fiscal strain stemming from a significant economic slowdown would likely result in higher borrowing requirements. This could be experienced as much larger borrowing requirements over a fairly short time horizon or consistently higher requirements over a longer time period.	<u>MEDIUM</u> The possibility of a major downturn in economic activity or longer term slow economic growth is given a <u>medium</u> likelihood due the historical frequency of such events. The last recession was approximately eight years ago. Since then, the Ontario economy has had only modest growth in recent years, with MOF projections showing a continued trend of low to medium economic growth.	<u>HIGH</u> The impact on the borrowing program will depend in part on the extent of the economic slowdown. A large economic slowdown, perhaps a recession, would have a large impact on the borrowing program over a couple of years, but persistent sub-par growth would also be painful. The impact of a one percentage point change in nominal GDP was estimated to be \$890 million for 2016-17. The world economy is currently highly reliant on U.S. economic growth and would be at risk if that fades. Given that Ontario's borrowing requirements are already quite large, the impact	<u>HIGH</u>	The Capital Markets Division is in constant contact with external economic experts who provide forecasts and analysis on the Province's economy as well as other major economies around the globe (including Canada's). In addition, the OFA is provided with a wealth of forecasts and economic insight from the Ministry of Finance. The OFA undertakes its borrowing strategically to reduce the effects of forecasted events and also looks to pre-borrowing to the extent possible. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program.

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			would likely be high, meaning that interest costs could increase appreciably. One result could be a reduced average term of borrowing to reduce borrowing costs or respond to reduced demand for longer term debt which would increase refinancing and floating rate risk. There could also be pressure to increase foreign exchange or counterparty credit exposures in order to reduce costs. The overall assessment of this risk is high .		
Financial market risk Primary Accountability: Risk Control Division	Higher-than- forecast borrowing requirement and/or interest rates, resulting in higher annual interest-on-debt (IOD) charges. Financial loss attributable to changes in interest rates, credit spreads, foreign exchange and liquidity risk.	<u>MEDIUM</u> Higher-than- forecast borrowing requirement and/or interest rates is given a <u>medium</u> likelihood due the historical frequency of interest rate changes, and the current medium-term forecast of provincial borrowing requirements.	<u>HIGH</u> The size of the province's annual borrowing requirement creates a <u>high</u> degree of sensitivity to market conditions, especially interest rates. IOD has generally produced cost savings compared to budget forecasts due to cost effective debt management, as well as interest rates that have been trending down for about 35 years. This experience may not be expected to continue, so financial market risk is assessed as being high. In the <i>2016 Budget</i> , it was estimated that a one percentage point increase in interest rates would have impacted IOD by approximately \$350 million for 2016–17.	<u>HIGH</u>	Sound and effective risk management infrastructure, including policies, procedures, risk management reporting, and Information Technology (IT) systems. The OFA uses a conservative risk limited approach to forecasting interest on debt expenses. This is achieved by using interest rate forecasts provided by the Office of Economic Policy for the two out years and a 15 year interest rate average for the third out year. Accurately measure and assess portfolio exposures and ensure compliance with the related limits as approved by the Board, including foreign exchange and net interest rate resetting exposure limits and IOD. Maximum foreign exchange exposure of five per cent. Maximum net interest rate resetting exposure of 35 per cent. Maximum loss policy on IOD of three per cent of budgeted IOD. The OFA has reduced the sensitivity of IOD to interest rates by extending the term of recent borrowings. It also maintains

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					exposure to foreign currency at levels far below the five per cent limit. While the policy limit for net interest rate resetting exposure is 35 per cent, the annual debt management plan sets out ranges that are usually considerably lower thus further limiting the risk.
Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt Primary Accountability: Capital Markets Division	Unable to achieve the borrowing program target of a particular fiscal year.	<u>LOW</u> The likelihood of not completing the borrowing program is low and would be based on a major market disruption or a major adverse credit situation at the Province. Both events are considered to have a low likelihood.	<u>EXTREMELY HIGH</u> The consequences of a major market disruption or a major adverse credit situation at the Province would obviously be extremely high , and thus overall risk is high.	<u>HIGH</u>	The OFA continually monitors demand for its bonds and has a strong relationship with its financial dealers. The OFA is aware, through external forecasts, Ministry of Finance advice, and its own analysis of bond markets, of the faith investors place in its bond offerings. The Capital Markets Division employs financial strategies, to reduce the effects of forecasted events. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program. The OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to request for information, and facilitates participation of more specialized or senior government officials as required.
Risk of credit rating downgrade	Risk that a credit rating downgrade from a major credit rating agency results	<u>MEDIUM</u>	<u>HIGH</u>	<u>HIGH</u>	Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of

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Primary Accountability: Risk Control Division	in increased costs to borrowing program and/or reduced market access.	The likelihood of a credit rating downgrade is medium . The OFA has regular meetings with the agencies, and is regularly advised of rating agency concerns. Based on regular meetings with agencies and outperformance of its fiscal targets in recent years, the risk of a credit downgrade is not considered to be high, although debt levels remain high.	A credit rating downgrade, could reduce the pool of investors able to buy Government of Ontario bonds. As a worst-case, investors might be forced to sell, creating competition for our primary distribution, therefore resulting in a high impact for the Province. Note: This risk is assessed as high. The best mitigating strategy, reducing the size of the provincial deficit, is not a variable that is under the control of the OFA.		the Province's financial status priorities, and initiatives. Diversify funding sources. Increase investor relations activities. Ensure that decision-makers at Queen's Park continue to be mindful of the serious consequences of the Province not meeting or beating its deficit targets.
Credit Risk Primary Accountability: Risk Control Division	Risk that the Province incurs a significant loss because a counterparty does not meet, or defaults, on its obligations to the Province.	<u>LOW</u> The size of Ontario's borrowing program requires the OFA to be open to borrowing opportunities in a variety of currencies. As the OFA has opted to keep currency risk at very low levels, this requires that hedging transactions be entered into with bank counterparties, creating credit risk. A bank default is considered to be a low probability event.	<u>HIGH</u> A bank default would be a high impact event, however, the assessment is overall medium as a result of the OFA's implementation of a comprehensive mitigation strategy including collateralized swap agreement and limiting transaction to highly rated counterparties.	<u>MEDIUM</u>	Ensure compliance with a sound and effective credit risk management infrastructure, including: an overarching credit risk policy that is reviewed and approved by the OFA Board on an annual basis, transacting with highly rated counterparties, limiting credit exposure concentration, and ongoing monitoring of key indicators of credit and market conditions. The Province will continue to enter into collateralized swap agreements with more of its swap counterparties to limit its credit risk. Such agreements allow the Province to cap its credit risk by requiring counterparties to post collateral when marked-to-market exposures exceed specific thresholds.
Electricity related policy,	Government policy, accounting or regulatory decisions, electricity sector	<u>MEDIUM</u>	<u>MEDIUM</u>	<u>MEDIUM</u>	Provide financial analysis and advice to senior Ministry of Finance officials and government on electricity policy options and initiatives, and maintain

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
price and other risk Primary Accountability: Corporate & Electricity Finance Division	structure, and potential electricity price and market events may have an impact on the financial performance of the Province, including reduced payments to the OEFC from, for example, the Province, Ontario Hydro successor companies and municipal electricity utilities, or price mitigation measures such as the new Ontario Rebate for Electricity Consumers, thus affecting the borrowing program.	The likelihood of this risk is deemed medium . The fiscal contributions of the electricity sector can fluctuate for many reasons, including the performance of OPG and Hydro One vs forecast, policy decisions including the timing of Hydro One share sales, regulatory decisions and volatility in electricity demand/prices. Fiscal expenses are largely determined by policy decisions. Volatility and policy change impacts can be both upward and/or downward.	While the electricity sector has a significant fiscal impact, it is not large compared to the total size of the Provincial Budget. In addition, certain fluctuations are within the government's control and borrowing issues should be manageable within the larger envelope of the Province's total borrowing program. Therefore the impact is rated as medium , leading to an overall medium assessment.		relationships and work with other ministries and agencies. Monthly meetings, and as needed, with OPG to monitor and report on financial performance and updated projections versus plan, as well as monitoring of policy, accounting and regulatory issues that may have fiscal implications upon consolidation of OPG and Hydro One in Public Accounts.
Operational, including systems, internal control and reputation risks Primary Accountability: Strategic Corporate Services Division	Risk from inadequate or failed internal processes and IT systems or from external events. The possibility that internal controls may not safeguard assets or prevent errors or fraud. The risk that negative publicity about the OFA's business practices may lead to financial or reputation costs or litigation.	<u>LOW</u> The likelihood of this risk is deemed low . The OFA's mandate and operations in a capital markets environment requires the extensive use of information technology. The fact that the OFA's mandate has also increased over the past years with no corresponding increase in staff resources has also resulted in a dependence on information technology. While this has allowed for efficiencies, this dependence also gives rise to the risk that IT systems may be poorly specified, operate incorrectly, or that the use of combinations of systems may have unintended consequences.	<u>HIGH</u> The financial impact of such risks could be compounded by harm to the OFA's reputation, therefore its impact is deemed high . This risk, reduced by the mitigating strategy, is assessed as medium.	<u>MEDIUM</u>	Maintain state-of-the-art IT systems, conduct daily back up, frequent update and testing of BCP involving remote desktop and co-locate. Appropriate documentation and timely reporting; update financial controls based on best practices; continued involvement of Internal Audit in developing new functions and reviewing existing financial policies; ensure oversight of service providers. As part of its annual audit, the Office of the Auditor General issues recommendations on areas where they feel internal controls can be tightened. Monitor print media to identify OFA-specific issues to protect OFA's reputation. Centralized external communication strategy. Early involvement of legal counsel.

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Service providers (e.g. custodians, fiscal agents, banks etc.) Primary Accountability: Finance and Treasury Division	Poor service from existing providers and/or lack of qualified service providers.	<u>LOW</u> The likelihood of this risk is deemed <u>low</u> . Service providers are selected through a rigorous competitive process that includes the submission of proposals covering performance standards and measures, followed by consistent internal monitoring of service quality.	<u>MEDIUM</u> Consistent internal monitoring ensures a <u>medium</u> impact for a low overall risk assessment.	<u>LOW</u>	All existing service providers provide services under a formal contract. Continue to implement and monitor service level agreements with existing providers. Continue to comply with selection criteria and contract management requirements in OFA procurement policy
Low investment returns or inadequate investment controls on nuclear funds. Primary Accountability: Capital Markets Division	If funds are not properly invested or general financial market returns are low or negative, substantial contributions could be required by one or both of the Province and OPG. In addition, the Province's reputation may be damaged if controls or investment policies deviate from industry best practices.	<u>MEDIUM</u> Prolonged poorer than targeted performance of the nuclear funds over the medium-term is given a <u>medium</u> likelihood. The nuclear funds have a very long time horizon and would be expected to have poor returns over some time periods but are required to earn real returns in excess of 3.25 per cent in the long run. The funds have exceeded the 3.25 per cent annualised real return benchmark on average since their inception in 2003, but there is some risk that cumulative average annualised returns may be inadequate in future or that the costs of decommissioning and used fuel disposal could well exceed current projections. Returns will be driven to a large extent by asset allocation and general investment returns in financial	<u>HIGH</u> The financial impact of poor performance could be quite substantial and is rated <u>high</u> given the size of the funds, and could result in substantial unexpected contributions from one or both of the Province and OPG. The overall risk assessment is high. Given the current size of the funds, a one percentage point decline in annual performance would equate to \$170 million in reduced value for the funds, which could affect future funding requirements. Such loss, however, will not translate dollar-to-dollar on the Province's annual statement of operations at consolidation, as the Province's revenue recognition related to the nuclear funds is based on historical cost, not fair value, and some of the	<u>HIGH</u>	The funds are diversified across asset classes and managers to reduce overall risk. Further diversification is being achieved as the funds move into alternative investments. The funds are also long-lived, and can be adjusted and returns recover over the long term, which result in the recovery of past Provincial contributions to cover investment return shortfalls, if any. In addition, a Statement of Investment Policies and Procedures (SIPP) and Statement of Investment Risk Policies (SIRP) are in place which outline basic policies which to a large extent address many of the risk factors. An extensive asset-liability study is undertaken every five years to attempt to optimize the asset allocation to meet the funds objectives to meet the cost requirements. Significant progress has been made in developing a comprehensive risk management framework which is expected to be implemented in 2017. In addition, the funds are closely monitored by staff and up to the respective Board levels by both the OFA and OPG including, for the OFA, by the ONFA IC. Unfortunately, the risk of sub-par returns cannot be entirely eliminated as it

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
		markets -- e.g., prolonged poor performance in equity returns or a general decline in the financial markets could be a driver of poor performance. Resourcing for the nuclear funds is relatively tight, although it is considered adequate. The likelihood of inadequate controls on the funds is assessed to be low.	impact is also mitigated by OPG's regulatory accounts for the funds related to the Bruce stations, under the Province's current accounting standards. In addition, the reputational impact of underperformance would also be high. The overall assessment of inadequate controls is high.		will be largely driven by the future market developments. Decommissioning and waste disposal costs and liability risk surprises are largely mitigated by the quinquennial ONFA Reference Plan update. The contribution schedules can be adjusted following a reference plan update to allow for returns in the funds to help cover liability revisions and past target rate of return shortfalls. The funds are audited on a regular basis which reduces the potential for fraud or other control problems. Staff monitor the funds very closely and are looking for irregularities. In addition, the funds are monitored up to the respective Board levels by both the OFA and OPG. The internal auditors of both OPG and the OFA are also proactive in examining control issues. The funds rely largely on external managers, and efforts are made to select highly professional managers who follow investment industry best practices.
Default on Loans to Public Bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of default by public bodies on OFA loans	<u>LOW</u> Although the OFA has restructured or provided a loan deferral in the past, this has been relatively rare, so an "unlikely" scenario (less than 20 per cent probability) is reasonable, and its likelihood is rated as low .	<u>LOW</u> Impact of a default may be "noticeable" and public, but loan write-downs to public bodies that are consolidated on the Province's financial statements would likely not create a fiscal impact, and, therefore, its impact is deemed low resulting in an overall low risk assessment.	<u>LOW</u>	Prior due diligence and analysis of debt repayment ability of public bodies on OFA loans. Ensure grant intercept mechanisms continue to be included in loan agreements. Early detection through loan monitoring by line ministry and restructuring of loan repayment terms.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Default on Guarantees under the Aboriginal Loan Guarantee Program (ALGP) Primary Accountability: Corporate & Electricity Finance Division	In the event of a call on an ALGP guarantee arising from a default on the underlying loan, the fiscal impact would be recorded in the fiscal year in which the claim was paid.	<u>LOW</u> Debt service reserve account, ongoing monitoring, bank account controls are in place to mitigate risk of default.	<u>LOW</u> Any default would have a negative fiscal impact on the Province in the year in which the Province paid a claim pursuant to the guarantee. As guarantees are limited to a maximum of \$50 million (unless Treasury Board approves an exception), and the average is smaller, the impact is small in the Provincial context. However, there may be a reputational impact for the Province/OFA as well.	<u>LOW</u>	Ongoing monitoring of approved loan guarantees, including project performance and compliance with loan and guarantee agreements.
Increased borrowing to fund loans to public bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of unexpected loans that were not included in the OFA Annual Borrowing and On-Lending Plan.	<u>LOW</u> Over the past five years, only one unanticipated non-school board loan caused the OFA to breach its loan contingency reserve. An “unlikely” rating of less than 20 per cent probability of occurrence is, therefore, prudent, resulting in a <u>low</u> likelihood.	<u>LOW</u> In the overall borrowing plan, any unexpected loans would likely not have a “noticeable” effect, as most incremental borrowing is not material in the context of the whole borrowing program and therefore can usually be accommodated. This results in a <u>low</u> impact and a low overall risk assessment.	<u>LOW</u>	Ensure there exists an unassigned contingency equal to 10 per cent of forecasted loans to public bodies. Push off less urgent loans for execution in the following fiscal year. For OLG and LCBO, request business updates from Regulatory Agency Oversight Division (RAOD) to identify potential borrowing requirements (e.g. for site expansion); include estimates in Borrowing and On-lending Plan. Where a policy decision is taken requiring the OFA to provide funding for a strategic project, facilitate private sector financing, especially if interest cost savings are only deemed to be minimal.
Government cost constraints	Cost constraints may limit the OFA’s ability to provide services in a timely manner.	<u>MEDIUM</u> While good budgeting process and budget to actual comparison exists,	<u>HIGH</u> If budgetary constraints are severe enough the delivery of core services will	<u>HIGH</u>	Timely budget preparation in accordance with PRRT requirements. The budget preparation process is aimed at allocating resources according to priorities.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Finance and Treasury Division		the OFA is not insulated against budgetary constraints. The likelihood is deemed <u>medium</u> .	be impacted justifying a <u>high</u> impact and high overall risk assessment.		Detailed planning and monitoring to meet priorities within cost constrained environment. Comparison on a quarterly basis between budget and actual to ensure that priorities are being met within approved expenditures. Effective financial management on a year by year basis that ensures minimal variances between budget and actual. The OFA also retains its surplus which can act as a source of funds to meet non salary related expenses upon approval from the Ministry of Finance.
Risk Category: WORKFORCE					
RISK AREA: Workforce: Operational Workforce Risks.					
Employee Fraud Primary Accountability: Finance and Treasury Division	Risk that losses will be incurred because an employee is dishonest.	<u>LOW</u> The likelihood is <u>low</u> due to stringent internal controls and systems that cannot be easily circumvented.	<u>MEDIUM</u> The impact is deemed to be <u>medium</u> resulting in an overall low risk assessment.	<u>LOW</u>	Continue to communicate code of values and measures for disclosing wrongdoing to OFA staff. Strong system of internal controls, including segregation of duties, which are regularly reviewed by internal auditors as well as the Office of the Auditor General. While no material issues have been identified to date from these audits that essentially cover the full fiscal year, all audit recommendations have been implemented. Detailed and timely exception reporting with managerial oversight.
Human Resource Risk Primary Accountability:	Risk that highly trained and specialized staff will not be available due to resignations, retirements, turnover, inability to hire, lack of skills, illness, etc.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The issue has gained traction due to the disparity between pay scales in other agencies and pension funds	<u>EXTREMELY HIGH</u> The impact is deemed <u>extremely high</u> resulting in an overall high risk assessment.	<u>HIGH</u>	Hire qualified staff; develop and implement staff retention strategies with assistance from the OFA Board and Human Resources Committee, provide support and training, where feasible provide competitive salary and benefits, foster a good and efficient working environment and a culture that

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Each Hiring Division, with support from the Strategic Corporate Services Division		compared to their OFA counterparts. As a result, overall, the pool of applicants to positions at the OFA has diminished over the past few years. Although most positions have adequate backup and succession planning, there are some areas within the OFA that are tightly staffed and some positions are highly specialized which creates vulnerability. In addition, compensation constraints have limited the ability to adequately replace staff externally at comparable experience and skill levels.			recognizes and rewards merit, set out performance plans and monitor, recognize and value achievements, good communications and teamwork, and implement employee engagement strategies. Offer results-based pay for performance, and a comprehensive and flexible benefits package. Maintain unique compensation structure for A/XOFA positions. At the end of 2016, consistent with OPS compensation, salary increases occurred for certain OFA employees, and the OPS has announced a restructuring of its non-bargaining and management compensation to be implemented over a four-year period. It is too early to tell whether these changes are sufficient to reverse the recent trend of disappointing responses to positions advertised externally and an inability to attract qualified candidates for positions in the A/XOFA classification and others including those requiring accounting designations and specialized formal education in financial engineering and information technology or investment and corporate finance experience.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: INFORMATION TECHNOLOGY & INFRASTRUCTURE RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.					
Privacy and security Primary Accountability: Strategic Corporate Services Division	Risk related to the agency's handling of sensitive/confidential information on behalf of the government Potential compromise of confidential information or personal data through identity theft, or unauthorized electronic or physical access of information	<u>LOW</u> The risk is considered low , as management ensures that staff are cognizant of the importance of information security.	<u>MEDIUM</u> The impact is deemed medium , resulting in an overall low risk assessment	<u>LOW</u>	Access to all electronic data requires authentication. Security of electronic and hard copy information is provided by enterprise IT perimeter security solutions, key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a regular basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply. New staff who work on the government's Budget are provided with training on the importance of budget security.
Business continuity Primary Accountability: Strategic Corporate Services Division	Risk that the processes in place to ensure that critical I&IT systems are not available for operation to support business requirements (disaster recovery & business continuity planning)	<u>LOW</u> The risk is considered low , as the OFA has a comprehensive Business Continuity Plan (BCP) which is regularly tested.	<u>HIGH</u> The consequences for the OFA not being able to carry out its business, even for one day, would be severe, therefore its impact is deemed high . As a result, the OFA maintains a twin of its IT infrastructure in a separate disaster recovery location (DR Site), which reduces the overall assessed risk to medium.	<u>MEDIUM</u>	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's DR Site. Critical production systems are routinely run out of the DR Site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes mobile devices and remote access services. Periodic drills are held to ensure that staff are able to use the OFA's BCP infrastructure in a productive manner.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Procurement Primary Accountability: Strategic Corporate Services Division	The procurement process has intensified in the past year causing significant project delays. The workload required to manage the process has not been offset with additional resources, annual budgeting has been impacted as projects timelines are difficult to determine and the organization is challenged to keep pace with changes in technology.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The OFA operates within the government procurement framework, adapted to its own unique requirements. The requirement to adhere to complex public sector procurement rules, as set out in the OFA's Procurement Policy has the potential of slowing down urgently needed IT infrastructure, creating a degree of risk. Some streamlining of the process has been carried out, reducing the assessed risk to medium.	<u>MEDIUM</u> The impact is deemed <u>medium</u> , resulting in a medium overall risk assessment	MEDIUM	Standardized approval forms and RFX (Request for Information, Proposal or Quotation) precedent templates streamline the procurement process. Establishing Service Level Agreements within the organization to ensure consistent timelines for document review and approvals will help ensure project deadlines are achieved. When project and procurement plans are hindered by lengthy standard procurement process, priorities will be revisited. In some circumstances, CEO approval of an exemption or a different process may be requested, if available.

ENVIRONMENTAL SCAN

Economic Conditions

The economic outlook for Ontario as described below is based on the average private sector view as of January 2017. As with all projections, there are positive and negative risks to the outlook. The most significant immediate risks to the outlook are rising interest rates and uncertainty regarding future U.S. economic policy. For business planning purposes, the OFA recognizes that it may confront increased demands to provide financing and other services.

Ontario's economy continues to grow in an uncertain global economic environment. Ontario real GDP increased 2.5 per cent in 2015. Private-sector forecasters, on average, estimate Ontario real GDP will grow by 2.6 per cent in 2016, 2.3 per cent in 2017, 2.2 per cent in 2018 and 2.0 per cent in 2019. The economic outlook is influenced by external factors, such as U.S. economic growth, oil prices and the Canadian dollar. Steady growth in the U.S. economy, along with the ongoing impacts of a more competitive Canadian dollar and low oil prices, continues to support Ontario's economic growth. Ontario's economy is expected to strengthen as growth broadens across major sectors of the economy, including household spending and exports. The recent increase in interest rates and the uncertainty tied to U.S. trade policy represents a downside risk to the Ontario economic outlook.

The United States is Ontario's largest trading partner, accounting for 80 per cent of the Province's international merchandise exports in 2015. Economic growth in the U.S. strengthened to 2.6 per cent in 2015 after rising by 2.4 per cent in 2014. According to the January 2017 Blue Chip consensus outlook, the U.S. economy is expected to grow by 1.6 per cent in 2016, 2.3 per cent in 2017 and 2.4 per cent in 2018.

The price of WTI (West Texas Intermediate) crude oil fell by over 70 per cent from its June 2014 peak of \$108 US per barrel to below \$30 US per barrel in early 2016, a reflection of strong supply and weaker global demand. WTI oil prices averaged \$43 US per barrel in 2016, down from \$49 US per barrel in 2015. The recent agreement between the Organization of the Petroleum Exporting Countries (OPEC) and other oil producers to reduce output has led to a rise in the price of oil. The current private-sector forecast average for the WTI price of oil is \$54 US in 2017 – well below levels recorded over the 2010-14 period.

Sharply lower oil prices and diverging monetary policy between Canada and the United States contributed to a depreciation of the Canadian dollar to an average of 78.2 cents US in 2015, down from 90.5 cents US in 2014. The Canadian dollar declined further in 2016, averaging 75.4 cents US. On average, private-sector forecasters expect the Canadian dollar will average 74.5 cents US in 2017.

Ontario's housing market continued to strengthen in 2016 alongside solid increases in the number of households and incomes. Sales of existing homes and resale prices rose 9.4 per cent and 15 per cent, respectively in 2016. Ontario housing starts also increased in 2016. Private-sector economists expect a soft landing in the Ontario housing market. Home resales and prices are projected to stabilize over the next few years as gradually rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand.

There are risks surrounding the housing market outlook. Home price gains in Ontario have outstripped incomes in recent years, fuelling mortgage debt accumulation. As a result, affordability in Ontario's housing market has eroded. Despite historically low mortgage rates, monthly carrying costs are elevated relative to long-term trends. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable in the event of an adverse economic shock.

Financial Markets

Moderate economic growth and headline inflation still operating below the 2 per cent target has prompted the Bank of Canada to hold the target overnight rate at 0.5 per cent since mid-2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.

In the United States, the Federal Reserve raised rates at its December 2016 meeting, citing a strengthening labour market and rising inflation. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, monetary policy in the European Union remains highly accommodative. In January, the European Central Bank announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases."

In Canada, while long-term interest rates are expected to remain at historically low levels, they are projected to gradually rise over the next few years. The expected onset of interest rate hikes by the U.S. Federal Reserve combined with the result of the recent U.S. election has already put upward pressure on Canadian bond yields.

According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018.

The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Government Initiatives

Government policy developments and financial performance in Ontario's electricity sector, including OPG, Hydro One and municipal electricity utilities, may affect borrowing requirements through the cash flows to OEFC. In particular, the Province's ongoing effort to broaden ownership of Hydro One will result in large cash flow impacts for OEFC.

The OFA will continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program. The OFA will lead the implementation of the Trillium Trust, for dedicated net revenue gains from qualifying asset sales to help fund infrastructure investments across Ontario. The OFA will also provide financial support to the Ministry of Environment and Climate Change in respect of the government's Cap and Trade program, as well as in the establishment of a Greenhouse Gas Reduction Account and a climate change agency.

The OFA will also provide financial analysis and advice in support of the Province's commitment to unlock the value of designated assets, and will continue to work with Infrastructure Ontario and other areas of government on optimizing certain holdings in the Province's real estate portfolio, in particular, the sale of OPG headquarter properties, as well as Seaton and Lakeview lands.

Regulatory Compliance

The OFA will ensure that information required to be disclosed by the Province in its debt securities offerings related documents, periodic published reports (including the Ontario Budget, the quarterly finances, the Public Accounts of the Province of Ontario and the annual fall Economic Outlook and Fiscal

Review) and other disclosures filed or submitted under applicable securities legislation, rules and regulations in the United States, the United Kingdom, Luxembourg, Australia, Switzerland and Singapore is filed on time and otherwise in accordance with those requirements. Regulatory requirements will be monitored continually to ensure the Province has ongoing access to these markets.

PERFORMANCE MEASURES

1. Execute the Province's borrowing program

Objective	Performance Measure	Target
a. Complete the borrowing program while ensuring that the Province always has adequate liquidity.	Sufficient liquidity on hand at all times to ensure the Province can meet its financial obligations. Ensure borrowing is completed with minimal negative impact on the Province's reputation in the financial markets.	Borrowing program completed and cash requirements met on a timely basis.
b. Manage the borrowing program in a sound and cost-effective manner.	The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	Achieve a percentile ranking of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by the Ontario Internal Audit Division.
c. Ontario Savings Bonds (OSB) Program	Fund borrowing requirements at cost-effective rates for a broadly based retail program which allows individual investors in Ontario to participate in providing funding to the Province. OSBs reduce other borrowing requirements which, in turn, reduces pressure on new issue spreads.	Ensure the program is cost-effective in the context of a retail borrowing program. Maintain and review Service Level Agreement between OFA and Fiscal Agent on an annual basis.

2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook

Objective	Performance Measure	Target
a. Manage outstanding debt in a sound and cost-effective manner.	Dollar savings of debt management transactions on a realized and mark-to-market basis. This methodology utilizes a risk-budgeting approach adopted by some large pension plan investment managers.	Achieve first quartile performance relative to a risk budget. Results are validated by the Ontario Internal Audit Division.
b. Preservation of capital on money market investments.	Credit losses on liquid reserves and investment portfolio of funds managed for other government bodies.	No credit losses on any investments. Generate actual returns that are within ± 2 basis points of the

Objective	Performance Measure	Target
Manage liquid reserves in a sound and cost-effective manner.	The investment return on the portion of liquid reserves invested in Government of Canada Treasury bills and similar riskless instruments compared to an average 61-day portfolio benchmark. This benchmarking process is consistent with private sector industry practice. Maintain liquid reserve levels within a pre-determined range and provide an explanation to the Board of any deviations from that range.	61-day benchmark portfolio. Results are validated by the Ontario Internal Audit Division.
c. With OPG, prudently manage the Used Fuel and Decommissioning Segregated Funds' investments.	Ensure investment management is consistent with ONFA objectives.	Manage, monitor, and analyze the performance of the funds and the performance of investment managers. Continue refinement of investment strategies, risk management, policies and procedures. Meet the real return objective of 3.25 per cent, and exceed the market benchmark over the life of the funds.
d. Prudently manage funds for government bodies through the centralized/ segregated fund initiative.	Reduce investment costs. Ensure public bodies' funds are managed consistently with investment industry best practices.	Establish and continue to efficiently manage segregated funds with government public bodies that meet client requirements.
e. Minimize financial risk by ensuring risk exposures and program losses remain within approved exposure and loss limits.	Foreign exchange exposure. Net interest rate resetting exposure. Interest on debt losses as a percent of budgeted interest on debt. Credit exposures relative to approved policy limits.	Foreign exchange exposure not to be above five per cent of total debt. The 2016–17 Financing, Debt and Electricity Management Plan had an approved range of 0 per cent to 2.5 per cent in Foreign Exchange Exposure. Currently, the exposure of 0.3 per cent of debt. The 2017–18 Financing, Debt and Electricity Management Plan will have a recommended range subject to Board of Directors approval later in the year. Net interest rate resetting exposure not to be above 35 per cent of total debt. The 2016–17

Objective	Performance Measure	Target
		Financing, Debt and Electricity Management Plan had an approved range of 10.4 per cent to 14.4 per cent in Ontario's Gross Floating Rate exposure, with a target of 12.4 per cent. Interest Rate Resetting Exposure is expected to be 11.2 per cent as of March 31, 2017, with an expected range of 9.2 per cent to 13.2 per cent. A new range and target for Floating Rate and Interest Rate Resetting Exposure will be approved in the 2017–18 Financing, Debt and Electricity Management Plan. IOD losses not to exceed three per cent of budgeted Interest on Debt. Credit exposures to be kept within approved policy limits.
f. Use risk control policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies are kept current with industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments and risk management reporting are to be reviewed annually, and amendments or decisions not to amend are to be approved by the Board of Directors. Review limits on net interest rate resetting, foreign exchange and credit exposures, and credit concentration. Calculate and report exposures daily. Perform monthly stress testing on the Province's market and credit exposures.
g. Measure and report performance of the Province's borrowing, debt management, and investment programs.	Timeliness and accuracy of performance measurement and reporting.	Report on borrowing and debt management performance daily, and on the money market program performance monthly.

Objective	Performance Measure	Target
h. Evaluate the potential impact of stressed capital market conditions on OFA programs and IOD.	Conduct stress tests of the credit exposures, and IOD, and report the results as described in the risk management policies.	Stress testing is performed and reported on a monthly basis as described in the risk management policies.
i. Forecast interest on debt (IOD) for the Province and the OEFC.	Forecasts for the current year and medium-term are provided for the Budget, Fall Statement and quarterly finances.	IOD forecasts for the current year and medium-term to be provided for the Budget, Fall Statement and quarterly finances in a timely manner.
j. Assess the credit quality of municipalities and other approved entities applying for Infrastructure Ontario loans and provide credit risk advice to the Credit Review Committee (CRC)	Review loan applications and analyze reports. Attend CRC meetings to provide advice and vote on each application.	Provide an advisory role at Infrastructure Ontario's CRC meetings.
k. Contribute to key ministry documents, including the Budget, Fall Statement, and quarterly finances; and advise on financial implications of government initiatives.	Advise on potential financial/treasury implications of government initiatives on IOD, borrowing objectives, credit ratings, and financial markets' reactions. Complete the Borrowing and Debt Management chapter, including the Financing Table, in the Budget and Fall Statement.	Ensure potential financial/treasury implications are considered in developing government financial objectives, including meeting the requirements of the <i>Fiscal Transparency and Accountability Act</i>. Provide the Borrowing and Debt Management chapter in the Budget and Fall Statement; and update Ontario's Financing Program in Ontario Finances (quarterly).

3. Manage key financial relationships

Objective	Performance Measure	Target
a. Manage Ontario's relationships with domestic and international investors.	Maintain dialogues with investors, investment dealers and the international investment community by providing timely financial updates, including investor publications and securities filing documents.	Continue to monitor fixed income markets, economic conditions, and investors' interests and requirements to ensure road shows are effective for both the Province and its investors. Investor Relations to continue to track meeting activity with investors. Program benchmarks to include number of meetings with new accounts, effectiveness of communications material and website usage. Provide IR information products, including updates to the OFA website, on a timely basis. Meet ongoing disclosure and regulatory filing requirements with the SEC, UKLA, LuxSE, ASX, SIX Exchange Regulation and the SGX. Provide panelists or speakers at domestic and international industry conferences.
b. Manage Ontario's relationships with the credit rating agencies.	Ensure that credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these in their reports and decisions.	Following the release of the Budget, senior OFA and Ministry of Finance staff will meet with the rating agencies. Throughout the year, agencies will be kept informed of the government's ongoing economic and fiscal progress.
c. Manage Ontario's relationships with banks, financial services providers, and investment dealers.	Maintain relationships with banks, financial services providers, and investment dealers who provide the Province with banking, underwriting, custodial and fiscal agency services, thereby maintaining the Province's reputation and supporting its strategic direction to provide financial and cash management services. Maintain relationships with swap counterparties.	Ensure banking, underwriting, custodial and fiscal agency services provided to the OFA are cost-effective with minimal impact on IOD. Promote Toronto as a global financial centre. Ensure compliance with existing collateralized swap agreements in a timely and accurate manner on a daily basis. The OFA will endeavour to enter into collateralized swap agreements with more swap counterparties to limit credit risk.

4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services.

Objective	Performance Measure	Target
a. Arrange OPS-wide cost-effective banking services that minimize the Province's expenditures.	Acquire cost-effective banking products and services to support government ministries' program delivery, Crown agencies' banking activities and OFA's debt and investment management activities through the government's tendering process.	Issue, award and implement tenders for banking and financial services to ensure service continuity and program area needs are met. Monitor vendors' post-implementation performance. Work with central agencies, ministry program areas, and financial service providers to increase take up of existing electronic payment mechanisms and identify industry trends and new banking technology, which can be leveraged to reduce costs and improve service delivery and back-office processes. Ensure continued compliance with mandatory requirements imposed by external parties such as Federal bodies and industry groups. Participate in government and industry working groups/task forces on developing innovative solutions to enhance banking and payment efficiencies. Provide comprehensive and timely banking advice to program areas and agencies supporting government initiatives.
b. Provide centralized cash management services that maximize liquid reserves returns.	Ensure the provision of timely and accurate cash information for the development of the Financing Table in the Annual Budget and Fall Economic Statements. High service standards on service contracts with client agencies to maintain client satisfaction.	Provide actual and forecast liquid reserve numbers for the Financing Table in the Province's Quarterly Statements and Annual Budget that stand up to scrutiny by internal and external stakeholders. Ensure relevant performance measures in client agency agreements are met or exceeded.

Objective	Performance Measure	Target
c. Timely and accurate forecasts to align borrowing with cash management requirements, helping to reduce IOD.	Reliable and accurate cash forecasts for the Province and client agencies.	Ensure that the Province has sufficient cash available at all times to meet its financial obligations. Continually enhance the Cash Management System, keeping it responsive to changing needs, technology, and the IT environment within the OPS, i.e. IFIS renewal and Hyperion.
d. Advocacy of best practices in cash management across the OPS	Policy advice where required to assist programs in complying with the Cash Management Directive.	Improved compliance with the Cash Management Directive; implementation of policies more in line with best practices.
e. Provide efficient, accurate and timely settlement and payment processes, and implement appropriate settlements industry best practices.	Ensure debt management, investments, derivatives, and loans are recorded and processed efficiently and accurately. Ensure that ITS, the OFA's system of record for debt, derivatives, and assets, continues to operate effectively. Adoption of industry best practices.	Make system and procedural enhancements to improve the efficiency and effectiveness of settlements' functions, and continue to mitigate operational risk. Replace the Public Bodies Financing System with a user friendly and efficient system that is either developed internally or sourced externally.
f. Provide timely and accurate financial reporting for the Province in relation to debt, derivatives and investments, and the agency financial statements.	Ensure security and proper records of transactions. Provide high quality financial information for publication in a timely and accurate manner.	Enhance internal controls on accounting records by applying best practices and staff training. Prepare internal reporting to ensure data integrity. Through research and continuous review, ensure that accounting records and financial reporting are prepared in accordance with applicable PSAB requirements. Provide timely and accurate information for the Province's Budget, Estimates, quarterly Finances and Public Accounts. Provide timely and accurate agency financial statements that pass the scrutiny of the OFA Board and its Audit and Risk Management Committee as well as the Office of the Provincial Auditor General.

Objective	Performance Measure	Target
g. Monitor and assess accounting developments that affect the financial reporting for the Province and its agencies.	Keep abreast of current accounting developments in various jurisdictions: the International Accounting Standards Board (IASB), the Financial Accounting Standards Board in the U.S. (FASB), and the Accounting Standards Board and the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.	Continue to monitor developments in accounting standards set by PSAB and other standard setting bodies that may affect the Province and agency reporting. Provide advice to the Office of the Provincial Controller, on developments in accounting standards that impact debt and related areas. In coordination with other provinces, actively bring the collective concerns of Ontario and the other provinces on the Financial Instruments standard to PSAB. Continue to liaise effectively with the Office of the Provincial Controller and the Office of the Auditor General of Ontario in making recommendations and/or responses on PSAB's review of these standards.

5. Advise on and implement corporate and electricity finance projects and policies

Objective	Performance Measure	Target
a. Provide financial analysis and advice on financing and other proposals that have capital markets implications. Develop the structure and negotiate the detailed terms and conditions of any transactions to minimize costs and best meet market expectations.	Cost-effective leasing policies and structures. Appropriate due diligence on financing aspects of asset management projects. Comprehensive advice on structuring and completing financial transactions. Accurate determination of value for money benchmarks and evaluating and recommending interest rates.	Comprehensive, timely and accurate advice to support objectives. OFA to be viewed across the government as a centre of excellence in financial analysis and providing high quality financial advice.
b. Provide financial analysis and advice on cost-effective borrowing, investing, and risk management by public bodies. Negotiate the detailed terms and conditions of any loans to be guaranteed to minimize costs and	Borrowing and investing through financial markets as cost-effectively as possible and within appropriate risk management frameworks for each client.	Comprehensive, timely and accurate advice to consolidated public bodies.

Objective	Performance Measure	Target
best meet market expectations.		
c. Provide financial analysis and advice on transactions requiring a provincial guarantee or that may otherwise increase the indebtedness or contingent liabilities of Ontario.	Comprehensive, accurate and timely review and identification of risks and potential risk mitigation strategies.	Comprehensive, timely and accurate advice as required.
d. Provide analysis and advice on electricity policies and initiatives that have potential financial, fiscal, and/or economic implications on the Province and/or OEFC.	Early identification and development of options to effectively deal with opportunities, pressures and/or risks to the Province or OEFC.	Comprehensive, timely and accurate analysis and advice, as required, including on the following: • Electricity supply, conservation, transmission, distribution and other electricity price mitigation initiatives. • Nuclear supply, including nuclear refurbishments. • Ongoing implementation of the ALGP. • Ongoing implementation of IEI program, ICI, NIER program, and the OREC.
e. Analysis and modelling to support the OEFC's objectives, including monitoring of OPG and Hydro One results.	Concise, accurate and timely reports and briefings as required.	Provide analytical and modelling support, as required, for the OEFC annual audit and reporting process. Continue regular financial update meetings with OPG to monitor financial performance. Provide required analysis to support management of NUG contracts (e.g., contract/rate negotiations, and NUG litigation.)
f. Provide electricity sector projections for the Province and the OEFC.	Ensure projections are provided in a timely manner, using best available information and reasonable assumptions.	Provide projections for the current year and medium-term for the Province's Budget, Fall Statement and quarterly finances; as well as projections for OEFC on an annual and quarterly basis. Provide regular updates on projections versus plan.

Objective	Performance Measure	Target
g. Analysis and advice to support the effective administration of ONFA, including approving annual budgets, monitoring fund balances, managing the Provincial Guarantee provided to the Canadian Nuclear Safety Commission (CNSC), and monitoring policies and other initiatives related to nuclear liabilities.	Comprehensive and appropriate due diligence performed on annual budgets, reference plans, disbursements and financial documents.	Review and approve annual budgets, including investment related expenses, change requests, and disbursements as per ONFA timelines. Ensure budgets are consistent with approved reference plans and only eligible costs are funded. Ensure fund flows follow ONFA requirements through audits and review of financial documents. Review and monitor plans and projects related to managing nuclear liabilities for decommissioning and waste management. Monitor and review the ONFA Reference Plan and the required level of the Provincial Guarantee to the CNSC as nuclear liability estimates are revised and as segregated funds change in value. Provide analysis and advice on OPG's contribution schedules and the Provincial Guarantee that is provided under ONFA to the CNSC.
h. Provide advice, as required, on evaluating the Province's assets, including investments in its business enterprises and analysis and advice on optimisation to enhance efficiency and maximize value.	Ensure required analysis, advice, and briefings are comprehensive, timely and accurate.	Provide timely and highly reliable financial advisory services as required, including modeling, option development, and the identification of key considerations to support OFA, Ministry of Finance and Provincial decision-making. Provide financial analysis and advice related to the Province's holdings of Hydro One shares and the sale/merger of Hydro One Brampton. Provide analysis and advice related to optimizing the Province's real estate portfolio, in particular the sale of OPG headquarters properties, Seaton and Lakeview lands.

Objective	Performance Measure	Target
i. Provide financial analysis and advice on corporate issues and initiatives	Ensure required analysis, advice, and briefings are accurate, timely, and comprehensive.	Provide expert financial analysis and advice as required, including modeling proposals and structuring transactions. OFA CEO, or delegate, participation and leadership on Boards and Committees overseeing these initiatives.

6. Ensure the successful activation of OFA's decentralized Business Continuity Plan

Objective	Performance Measure	Target
a. Review and update the Corporate BCP framework and business unit plans.	Business units being able to successfully complete their identified critical time-sensitive tasks from decentralized locations.	Maintain staff awareness and readiness to implement the Corporate and business units' plans to meet business requirements in the event of a business disruption. Conduct and assess periodic BCP tests.

HUMAN RESOURCES

Staff allocation for 2016–17 is 166 positions, or full-time equivalents (FTEs), excluding leaves of absences. Between 2007–08 and 2016–17, the borrowing program is projected to increase by 32 per cent, from \$18.0 billion to \$23.8 billion, and the Province's net debt is projected to increase by 103 per cent, from \$156.6 billion to \$317.9 billion. The OFA's operating costs (forecasted) increased by 20 per cent, from \$22.5 million to \$27.1 million, and FTEs dropped by three per cent, from 172 to 166.

The OFA continually reviews its recruitment and retention strategies to ensure it is able to attract and retain qualified staff. Some of the initiatives that have been implemented include supporting flexible work arrangements, and implementing diversity, inclusion and accessibility strategies. Approximately 85 per cent of the OFA is on the government compensation plan, which is controlled centrally. All but five positions are excluded from collective bargaining.

The OFA will continue to work with the Human Resources and Governance Committee of the OFA Board and the Ministry of Finance Human Resources Branch to develop further initiatives to promote staff retention and skills development. The OFA will also continue to work with the OPS Recruitment Centre to enhance the OFA's ability to attract qualified candidates. This will ensure the OFA can meet its current and future business priorities. Initiatives may include providing opportunities for staff to participate in learning and development courses, job shadowing, secondments, and special projects to the extent feasible to enable continuous learning and enhance succession planning.

FINANCIAL BUDGET

OFA Multi-Year Operating Expenditure Forecast

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Salaries	19,055	19,055	19,876	20,273	20,679
Benefits	2,195	2,195	2,299	2,345	2,392
ODOE	5,802	5,802	5,352	5,412	5,513
Sub-total Cash DOE	27,052	27,052	27,527	28,030	28,584
Add: Amortization	881	863	789	764	786
Less: Capital Expenditure	(865)	(865)	(817)	(785)	(795)
Direct Operating Expense	27,068	27,050	27,499	28,009	28,575

Staffing levels are forecast to remain at 166 positions (FTE basis) over the planning horizon.

The tables and financial statements included in this document have been prepared on an accrual basis of accounting to correspond with the OFA Financial Statements.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

OFA - Income Statement Projections

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Revenue					
Interest Revenue	3,003	3,067	3,305	2,847	2,715
Cost Recovery from the Province	22,207	22,206	22,640	23,034	23,485
Cost Recovery from agencies /related parties	4,861	4,844	4,859	4,975	5,090
Total	30,071	30,117	30,804	30,856	31,290
Expenditure					
Operating Expense	27,068	27,050	27,499	28,009	28,575
Total	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

STRATEGIC CORPORATE SERVICES

Strategic Corporate Services Division (SCSD) is accountable for delivering robust Information Technology, Strategic Human Resources Management, Records and Information Management, Procurement and Policy Management, Facilities Management and Physical and Cyber Security Services. Enhancements to each of these areas drives efficiency, auditability and consistency throughout the organization. SCSD ensures the OFA's and OEFC's core business objectives are supported by reliable, dedicated, customized and integrated technology infrastructure, business applications, administrative process and access to external real-time data sources.

A major focus of SCSD is to support the OFA's core operational business processes. By actively assessing and adjusting the underlying functions that enable the day-to-day business needs, SCSD is able to provide streamlined solutions that increase the safety and wellbeing of the staff, further the OPS Diversity and Inclusion commitments, and provide transparency into procurement and human resource activities.

In addition, reliable and secure information technology is essential to the OFA's ability to deliver its mandate. To that end, SCSD strives to ensure that business applications and related services are not down more than four times a year for a period greater than 30 minutes for each occurrence during normal business hours. The OFA's financial business functions are powerfully supported by SCSD's technology infrastructure, providing availability, integrity, security, and capacity via high-performance, highly-redundant systems at a competitive cost. SCSD can effectively deliver and maintain state-of-the-art financial systems and services because of OFA's internal management of information technology.

The following initiatives will be carried out over the next three years to support the OFA's strategic direction and objectives:

Initiative	Duration	Contribution to key OFA activities
Automate and enhance structured, processes across the organization such as Asset and Inventory Management.	2017–18	Address the organization's increased focus on procurement practices.
Increase the effective management and delivery of IT projects through centralized, standardized processes and controls.	2017–18	Continue to enhance delivery and effectiveness of resources in project management efforts. Support OFA objectives in the delivery of technical initiatives.
Expand core systems to track new government initiatives, allow for greater flexibility in hedge portfolio group splitting, strengthen bond and swap pricing modules and Implement applicable changes as per financial and regulatory reform requirements.	2017–19	Support a large borrowing program and the corresponding large volume of associated hedging activity; provide flexibility to support the commodities hedging program conducted by the OFA for Metrolinx; and the continuation of new government initiatives, including Ontario Green Bonds, and the Trillium Trust.
Through iterative enhancements to technology and policy, ensure the security of information assets and infrastructure across multiple platforms.	2017–19	Address increased requirements for integrated communication solutions as well as data anytime, anywhere. Enhance support for the OFA's BCP.

Creating and enhancing OFA business dashboards to gain increased insight and enhance trading and portfolio management information.	2017–19	Provide OFA executives with timely information to support treasury and borrowing program activities.
Creating and enhancing KPIs and dashboards, reporting mechanisms to measure the performance of delivered corporate services.	2017–19	Provide OFA executives with timely information to support business activities.
Continuous IT infrastructure improvement that will enhance performance, increase capacity, and make the OFA's computing solution highly available.	2017–19	The OFA's financial business functions are well supported by its robust IT infrastructure, which is essential for the OFA to carry out its mandate.
Continuous IT security improvement that will ensure the integrity of the OFA's IT network and prevent any unintended data loss or unauthorized access. Review, revise, and develop IT policies and procedures based on emerging business or technology requirements.	2017–19	The OFA is proactive in ensuring that its systems are highly secure.
Continuous IT service delivery enhancement that will improve the process of incident management, change management, and problem management. Implement SCSD Service Catalogue and Configuration Management Database (CMDB).	2017–19	The OFA's financial business functions are well supported by various IT Services. A better service delivery framework is essential to deliver IT Services professionally and on a timely basis.
Streamline procurement through a centralized, process-driven methodology.	2017–20	Provides clear accountability, auditability and transparency.
Implementation of an Information Management Strategy that transitions the treatment of information from 'data' to an 'asset'.	2017–20	Promotes the retention of corporate knowledge within the organization.
Continuous Enterprise Project and Portfolio Management that will improve the ability to track, report and deliver on business and technology initiatives.	2017–19	Provides clear accountability, auditability and transparency.

INITIATIVES INVOLVING THIRD PARTIES

There are no third parties, other than the provincial government, with which the OFA is partnering or with which it has a funding relationship for the purpose of delivering OFA programs. Moreover, the OFA does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

IMPLEMENTATION PLAN

For 2017–20, the OFA intends to implement its business plan using existing resources and allocations.

COMMUNICATION PLAN

Business Plan

The OFA Business Plan serves as an internal tool for management and staff in the development of program plans and, through the regular reporting of the status of initiatives to the Board of Directors, it serves as a performance measurement tool. The plan also communicates the OFA's business objectives to the Minister of Finance and the Ministry.

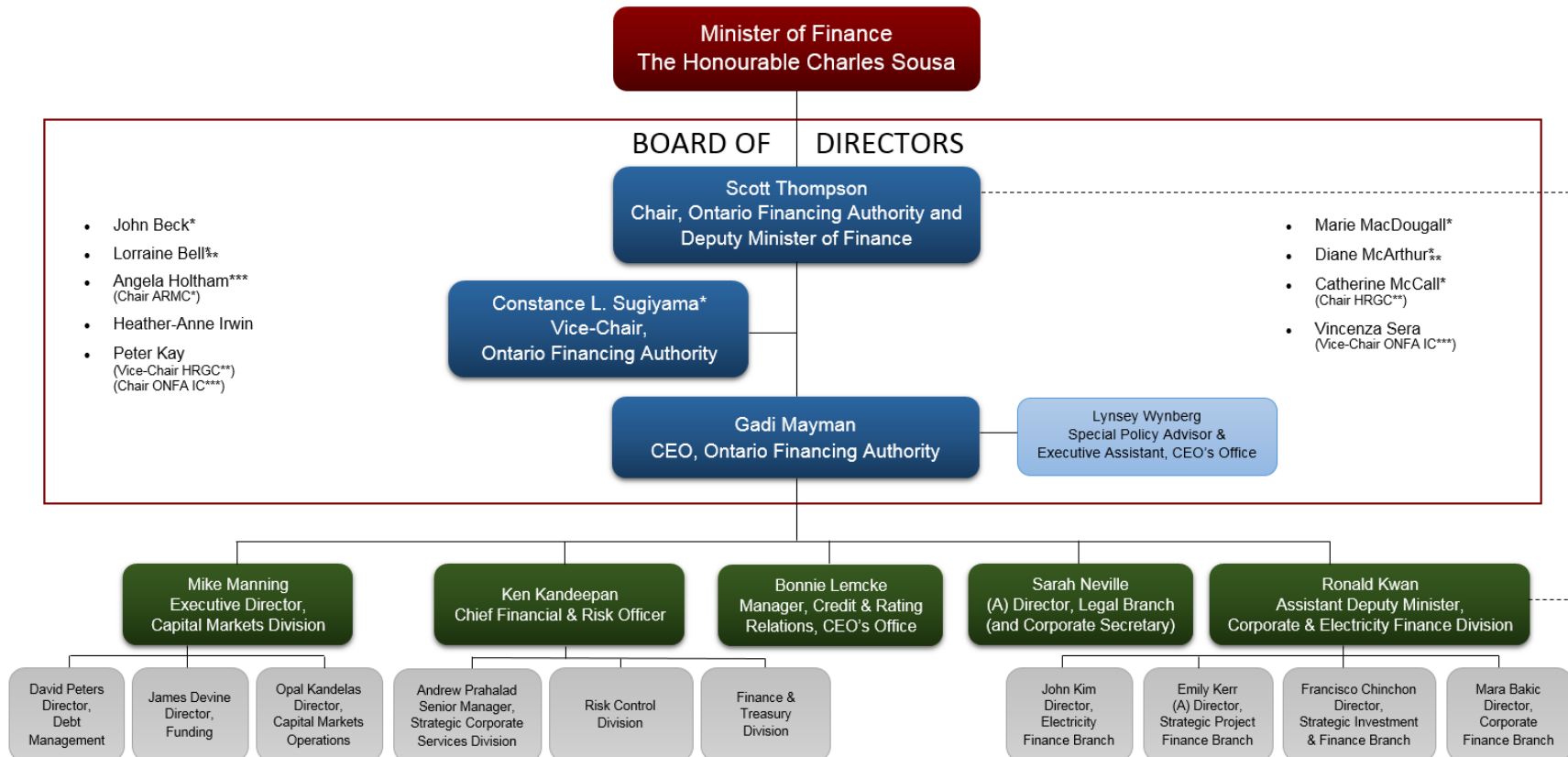
Other Communications

The OFA has a number of external stakeholders, including institutional and retail investors, investment dealers, banks, and credit rating agencies. In 2017–20, the OFA will communicate with stakeholders using various methods including:

1. Websites (including expense information): www.ofina.on.ca; www.ontariosavingsbonds.com; www.ofina.on.ca/algp;
2. Budget and quarterly updates: develop borrowing and debt management components;
3. Fact sheets, investor relations presentations, and other investor material (available on the website);
4. Annual Report (as required by the *Capital Investment Plan Act, 1993*);
5. Regulatory filings;
6. Business Plan; and
7. Memorandum of Understanding (MOU).

Other methods of communication to be used throughout the year are investor relations meetings and regular discussions with credit rating agencies. In addition, the OFA is responsible for the development of communications vehicles for OEFC and will continue to maintain the OEFC website, www.oefc.on.ca, and to produce the OEFC annual report.

ORGANIZATIONAL CHART



* ARMC = Audit & Risk Management Committee

** HRGC = Human Resources & Governance Committee

*** ONFA IC = Ontario Nuclear Funds Agreement Investment Committee

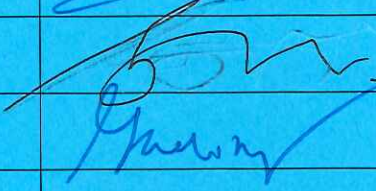
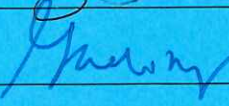
General Information

Item 2017-20 Ontario Financing Authority (OFA) Business Plan		Deputy Minister's Office Contact
Division Ontario Financing Authority		Branch Investor Relations
Date Prepared Feb. 21, 2017		Prepared By Serena Ly
Minister's Approval Required ☒ Yes ☐ No	Date Approval Required	Return To Christina Zhang (416) 325-8032

Description

OFA Board of Directors approved the 2017-20 Business Plan on February 10, 2017.

Standard Approvals

Title	Name	Signature	Date
Manager	Erica Wieder		Feb. 21, 2017
~~Director~~ Chief Financial & Risk Officer	Ken Kandeepan		Feb 22/17
Chief Executive Officer	Gadi Mayman		Feb 22/17
Assistant Deputy Minister / CAO			
Deputy Minister	Scott Thompson		

Supplemental Approvals

Area	Name	Signature	Date

Comments

Deputy Minister's Office Tracking

File Name	File Location
Key Words	

Ontario Financing Authority

1 Dundas St W, Suite 1400
Toronto ON M7A 1Y7
Tel.: 416 325-8002
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Office ontarien de financement

1 Rue Dundas ouest, Bureau 1400
Toronto ON M7A 1Y7
Tél. : 416 325-8002
Téléc. : 416 325-8005



February 21, 2017

MEMORANDUM TO:

Scott Thompson
Deputy Minister of Finance
Chair, Ontario Financing Authority

FROM:

Gadi Mayman
Chief Executive Officer, Ontario Financing Authority

SUBJECT:

Ontario Financing Authority 2017–20 Business Plan

I attach the Ontario Financing Authority's (OFA) 2017–20 Business Plan for submission to the Minister for his approval.

The Agencies and Appointments Directive (AAD) requires provincial agencies to develop a Business Plan annually for a minimum three-year period. The Business Plan must be approved by the OFA's Board of Directors and the Minister of Finance. The Plan is considered valid only after the Minister has approved it by affixing his signature.

Treasury Board/Management Board of Cabinet (TB/MBC) may request the Minister submit the Business Plan for review by TB/MBC at any time.

When the Minister approves the OFA's Business Plan, the Business Plan becomes a document that the Minister and Ministry of Finance may use to hold the OFA accountable.

The OFA Board of Directors approved the OFA's 2017–20 Business Plan on February 10, 2017. It has also been reviewed by Ministry of Finance staff as required under the Treasury Board Secretariat (TBS) Guide to Developing Business Plans for Provincial Agencies.

I also attach a letter of transmittal for your signature to be forwarded with the 2017–20 Business Plan to the Minister for his approval.

A handwritten signature in blue ink, appearing to read "Gadi Mayman", with a checkmark at the end.

Gadi Mayman

Attachments

Ministry of Finance

Frost Building South
7 Queen's Park Cr
Toronto ON M7A 1Y7
Tel.: 416 325-0400
Fax: 416 325-1595

Ministère des Finances

Édifice Frost sud
7 Queen's Park Cr
Toronto ON M7A 1Y7
Tél. : 416 325-0400
Télec. : 416 325-1595



February 21, 2017

MEMORANDUM TO: The Honourable Charles Sousa
Minister of Finance

FROM: Scott Thompson
Deputy Minister of Finance
Chair, Ontario Financing Authority

SUBJECT: Ontario Financing Authority 2017–20 Business Plan

Please find attached for your review and approval, the Ontario Financing Authority (OFA) 2017–20 Business Plan.

The Agencies and Appointments Directive (AAD) requires provincial agencies to develop a Business Plan annually for a minimum three-year period. The Business Plan must be approved by the OFA's Board of Directors and you. The Plan is considered valid only after you have approved it by affixing your signature.

Treasury Board/Management Board of Cabinet (TB/MBC) may request that you submit the Business Plan for review by TB/MBC at any time.

When you approve the OFA's Business Plan, the Business Plan becomes a document that you and the Ministry of Finance may use to hold the OFA accountable.

The OFA Board of Directors approved the OFA's 2017–20 Business Plan on February 10, 2017. It has also been reviewed by Ministry of Finance staff as required under the Treasury Board Secretariat (TBS) Guide to Developing Business Plans for Provincial Agencies.

Please sign the front cover of the attached Business Plan if you approve the OFA's 2017–20 Business Plan.

Scott Thompson

Attachment

From: [Christina Zhang](#)
To: [Serena Ly](#)
Subject: FW: OFA approved business plans
Date: Wednesday, March 15, 2017 11:30:51 AM
Attachments: [2017-20 OFA Business Plan.pdf](#)
[20170227170153956.pdf](#)

Hi. Can you send me the DM to M memo?

From: Khong, Cho (MOF) [mailto:Cho.Khong@ontario.ca]
Sent: Wednesday, March 15, 2017 11:13 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Alena Ingram (MOF) <Alena.Ingram@ontario.ca>; Cho Khong (MOF) <Cho.Khong@ontario.ca>
Subject: FW: OFA approved business plans

Christina, please send me the electronic version of the Transmittal Memorandum DM to Minister

Thanks,
Cho

From: Christina Zhang [mailto:Christina.Zhang@ofina.on.ca]
Sent: Monday, February 27, 2017 5:02 PM
To: Ingram, Alena (MOF)
Cc: Khong, Cho (MOF); Frost, Cheryl (MOF); Jeanes, Bridget (MOF)
Subject: RE: OFA approved business plans

Hi Alena,

Please find attached the approvals package containing the 2017-20 OFA Business Plan. The attached business plan was approved by the OFA Board of Directors on February 10th.

I'll put the hard copy into interoffice mail, addressed to your attention.

Regards,
Christina

From: Ingram, Alena (MOF) [mailto:Alena.Ingram@ontario.ca]
Sent: Monday, February 27, 2017 1:56 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Cho Khong (MOF) <Cho.Khong@ontario.ca>; Cheryl Frost (MOF) <Cheryl.Frost@ontario.ca>
Subject: OFA and OEFC business plans

Christina and Gavin,

Could you please confirm that we will be receiving final 2017-18 business plans for OFA and OEFC by the March 1 deadline?

If there are any issues, please let me know. Thanks.

Alena

Alena Ingram
Senior Program Analyst
Corporate Planning & Finance Branch, Ministry of Finance
905-436-4469
Alena.Ingram@Ontario.ca

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2017–20 Business Plan

Approved by the Board of Directors

February 10, 2017

Date

Approved by the Minister of Finance

Signature

Date

The Honourable Charles Sousa
Minister of Finance

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EXECUTIVE SUMMARY

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). The initiatives in the OFA's 2017–20 Business Plan will focus on achieving the objectives set out in CIPA and the objectives set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016 over a three year planning horizon, as well as reporting on results of the previous year's Business Plan. Initiatives for the 2017–20 Plan include:

1. Executing the Province's borrowing program through development and implementation of the annual Financing, Debt & Electricity Management Plan. The Plan will provide critical details on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
2. Managing the Province's debt, investments, Ontario Nuclear Funds Agreement (ONFA) and financial risk, and contributing to the development of the Province's fiscal plan and outlook by working to generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds for various public bodies. This also involves managing ONFA-related investments, working together with Ontario Power Generation Inc. (OPG), to ensure interest rate, foreign exchange and credit exposures are within approved policy limits, as well as contributing to the Province's annual Budget, Fall Statement and quarterly finances.
3. Managing key financial relationships by building and maintaining connections with investors in both existing and new markets, as well as relationships with banks, financial service providers and investment dealers. This includes providing Investor Relations information products and updates on the OFA website. Maintaining close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives, and complete regulatory filings with the U.S. Securities & Exchange Commission (SEC) and any other applicable securities regulators.
4. Providing cash management and banking services on a centralized basis to all ministries and settlement, payment, financial and reporting, loan administration, information technology and client services to the Treasury Program by implementing effective treasury solutions for the Province and client agencies. Ensuring that the Province has sufficient cash available at all times to meet its financial obligations, and continuing to work with the other ministries to advise on banking and cash management components of government initiatives as well as on changes to accounting standards and their impact on the Province's debt and interest on debt.
5. Advising on and implementing corporate and electricity finance projects and policies by providing analysis and advice on cost-effective borrowing, investing and risk management by public bodies and other financing proposals, and on business cases for business supports. This includes providing advice on transactions that may affect the indebtedness or contingent liabilities of Ontario, including provincial guarantees. In addition, undertaking policy and financial analysis, modelling support and implementation, as required, for electricity financings, policies and initiatives, including ONFA, which could have fiscal, financial and/or economic implications for the Province and/or Ontario Electricity Financial Corporation (OEFC).
6. Ensuring the successful activation of OFA's decentralized Business Continuity Plan (BCP) by reviewing and updating the Corporate BCP Framework and Business Unit plans, as well as conducting corporate-wide BCP test exercises.

OVERVIEW OF 2016–17 RESULTS (TO DATE)

The Ontario Financing Authority (OFA) accomplished the following in support of the overall strategic directions outlined in the 2016–19 Business Plan¹:

1. *Execute the Province's borrowing program*

- As of January 31, 2017, the OFA had completed \$20.3 billion (85 per cent) of its \$23.8 billion (as per the 2016 Fall Economic Statement) long-term borrowing requirement for 2016–17. Approximately 82 per cent of long-term borrowing was completed in the Canadian dollar market.
- The 2016–17 Ontario Savings Bond (OSB) campaign raised \$127 million.
- The objectives set out in the 2016–17 Financing, Debt & Electricity Management Plan, approved by the OFA Board, are on track and expected to be successfully completed by fiscal year end.
- Sufficient liquidity has been available over the fiscal year to ensure the Province has been able to meet all of its financial commitments and payment obligations, largely reflecting the long-term borrowing program being consistently ahead of pace.
- Successfully executed five carve-out deals² to-date for the 2016–17 fiscal year (as of January 31, 2017). Held in-depth discussions with individual carve-out investors.
- On January 26, 2017, the Province successfully priced an \$800 million re-opening of its January 2023 Global Green Bond. The six year bond will help fund twelve green infrastructure projects, with an emphasis on clean transportation and energy efficiency and conservation. The transaction represents the third and largest ever Green Bond offering from the Province of Ontario.
- Provided expertise in accounting for Green Bonds, and set up financial accounting and reporting for these investment vehicles that met the requirements outlined by the investor community. Developed and released a second Green Bond newsletter on December 12, 2016, updating investors on the second Green Bond's use of proceeds, project selection process, as well as, providing project updates on the eight projects selected.
- Analyzed the scope and impact of the Markets in Financial Instruments Directive (MiFID) II and the Bank Recovery and Resolution Directive (BRRD) on the Province and implemented required documentation changes to ensure the Province's continued, uninterrupted access to European capital markets.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

- As of January 24, 2017, through the timing of debt issues and related hedging, the cost of regular borrowing for the Province based on the traditional methodology translated to a percentile ranking of 58th percentile against a statistical distribution of benchmark interest rates. As such the percentile ranking for regular borrowings is outside the designated target band of 45 to 55 percentile. The OFA has introduced a more accurate and comprehensive performance measurement methodology based on the tenor of individual debt issues. Applying this methodology, the cost of regular borrowing for the Province for the same date translated to a percentile ranking of 53rd percentile, falling within the target band of 45 to 55 percentile. The cost of strategic foreign borrowing as of January 24, 2017 translated into a percentile ranking of 54th percentile falling within the designated target band for strategic foreign borrowings of 50 to 75 percentile. The new methodology is yet to be extended to cover strategic foreign borrowings. There were no borrowings on behalf of OEFC.

¹ The OFA's fiscal year end is March 31, 2017, but quantitative performance results are as of December 31, 2016, unless otherwise noted.

² In order to accommodate large bond purchases by a single buyer, a large order procedure was implemented on October 14, 2011. The "carve-out" procedure allows for a portion of a bond issue to be sold to a single buyer.

- The money market performance was \$ \$21.6 million or thirteen basis points (bps) better than the benchmark as of December 31, 2016. The performance is eleven bps better than the upper limit of the target band which is plus or minus two bps of the benchmark.
 - The interest-on-debt (IOD) expense for 2016–17 is currently forecast at \$11,375 million, \$381 million lower than forecast in the *2016 Budget*, primarily as a result of lower than forecast interest rates.
 - Funds were managed on a discretionary basis on behalf of the Pension Benefits Guarantee Fund, Deposit Insurance Corporation of Ontario, Ontario Trillium Foundation, Infrastructure Ontario, and a commitment fund for the Ontario Capital Growth Corporation.
 - Funds were managed on a non-discretionary basis on behalf of the Ontario Immigrant Investor Corporation and Northern Ontario Heritage Fund.
 - With OPG, the Used Fuel and Decommissioning Segregated Funds' investments were managed under ONFA. The Funds have grown from \$16.9 billion at January 1, 2015 to about \$19.2 billion at September 30, 2016. As of November 30, 2016, the rate of return for the Used Fuel Fund for one year was 6.88 per cent compared to the market benchmark of 6.89 per cent and a target rate of return of 5.04 per cent. The rate of return for the Decommissioning Fund for one year was 6.79 per cent compared to the market benchmark of 7.07 per cent and a target rate of return of 5.15 per cent.
 - Contributed to the Province's annual Budget and quarterly finances, including the electricity sector outlook and assets; advised on the potential implications of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions.
 - As part of the Pooled Asset Management Working Group, provided technical investment management expertise on the modelling, design and implementation of a pooled asset management entity for institutions in Ontario's broader public sector. In February 2015, a final report was presented to the Minister of Finance. The OFA has continued to assist the Ministry of Finance (MOF) in implementing the Investment Management Corporation of Ontario (IMCO).
 - Administered borrowing authority obtained under the *Financial Administration Act* (FAA) which is required to carry out the Province's borrowing program. Effected changes to the FAA to better align the foreign currency conversion of debt maturities to be refinanced with the methodology used in calculating the Province's annual borrowing requirement.
3. *Manage key financial relationships*
- Held road shows, investor meetings and conference calls to meet with investors in Canada, the United States, Europe and Asia, and hosted meetings at the OFA offices. Held 139 investor meetings and events as of December 31, 2016, including meetings with 10 new accounts. Provided keynote speakers and panelists at industry conferences in Toronto and New York City. Promoted Toronto as a global financial centre.
 - Continued development of the OFA website to improve functionality, add additional information for investors and provide full mobile accessibility. As part of Ontario's *Open Data Directive*, the OFA published an Open Data Inventory List on its website, which includes all of the datasets the OFA creates, collects and/or manages. The website continues to be an important tool for communicating with investors and the public, receiving 34,792 visitors during the 2016 calendar year. Three CEO's Corner updates were posted over this time. The OFA email alert list had 363 subscribers as of December 31, 2016.
 - Maintained close relationships and held ongoing discussions with credit rating agencies and the banks which underwrite and distribute the Province's bonds in Canada and around the world to keep them apprised of government priorities and initiatives, the *2016 Budget*, the 2015–2016 Public Accounts, the *2016 Ontario Economic Outlook and Fiscal Review* (Fall Statement), the secondary offering of Hydro One upon its public announcement and other quarterly finance releases.
 - Managed increasingly more rigorous regulatory and disclosure requirements, and maintained close relationships with the regulatory bodies in the global capital markets.
 - Monitored credit exposures to banks with which the OFA has relationships. Executed 10 collateralized swap agreements with bank counterparties and are working toward executing additional agreements in order to mitigate credit risk with bank counterparties.

- Conducted comprehensive reviews of potential rule changes affecting the Province domestically and internationally such as the Market Abuse Directive (MAR) in the European Economic Area (EEA) and fee-based changes with Canada's primary central securities depository (CDS), consulting securities regulators and other capital market participants, as appropriate.
 - Monitored and fully complied with international withholding tax requirements in respect of its financial agreements under FATCA and OECD Common Reporting Standard for Entity Tax Residency.
4. *Provide cash management and banking services as well as settlement, payment services, loan administration and financial and reporting services and client services*
- Provided centralized banking services to the Province by strategically managing banking relationships, as well as providing efficient centralized cash management services to the Province, minimizing interest on debt.
 - Continued to provide cash management services to five client agencies and crown corporations, including the Pension Benefits Guarantee Fund, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario.
 - Managed the complex cash flows and settlement requirements associated with the secondary offering of Hydro One ensuring that these very large and time sensitive transactions were completed on a timely and accurate basis.
 - Continued to advise ministries on the application of the Cash Management Directive with regard to Government priorities including the proposed cap and trade mechanism for Ontario.
 - Continued strategic participation and advice to the cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Coordination Office to assist ministries in maintaining compliance with mandatory security requirements for debit/credit card acceptance.
 - After concluding a successful pilot, continued to work with the Ministry of Community and Social Services to replace social benefits payments made by cheque with a reloadable prepaid card product for all unbanked individuals providing both cost efficiencies, and improved services to Ontarians.
 - Provided analysis and advice to Ministry of the Environment and Climate Change (MOECC) on the structuring of the Province's proposed Cap and Trade auction program, which will be linked with those of California and Quebec, to ensure its sound financial management and protection of the Province's interests.
 - Provided advice to MOECC regarding the selection and management of a Financial Services Administrator to support the auction process, and control structure for the auction-related financial services and receipt of public money aspects.
 - Provided advice to the Ministry of Government and Consumer Services (MGCS) on their procurement of corporate purchasing / travel cards as well as analysis of related *Financial Administration Act* considerations.
 - Provided analysis and advice to ministries on payment options for new programs and program changes e.g. Ministry of Transportation Drive Clean program collections via Pre-Authorized Debit, Ministry of Advanced Education and Skills Development online collection of childcare license fees, and online Program Approval and Registration Information System.
 - Based on an in-depth risk and efficiency analysis the Province determined to no longer accept American Express cards as a payment mechanism. The decision generated savings through the elimination of a parallel infrastructure as well as reduced risk by streamlining PCI data security requirements.
 - Working closely with MOF to develop an e-services strategy for tax collection.
 - Continue to engage with provincial and federal counterparts on treasury and cash management program issues throughout the year.
 - Continued to provide timely and efficient settlement and payment services in managing the Provincial and OEFC debt portfolios and Non-Utility Generator (NUG) power purchase contracts.
 - Continued to work with MOF, MGCS and Treasury Board Secretariat (TBS) in advancing the OFA initiative to move pension plan assets that are currently part of the Consolidated Revenue Fund into

more appropriate asset management structures that have the potential to release up to \$50 million in annualized savings.

- The Integrity Commissioner has graduated the OFA from having to submit the travel expenses of the Board, the CEO and his direct reports and the top five employees in a fiscal year, for review by his office. The graduation is a testament to the timeliness and accuracy exhibited by the OFA in providing this information to the Office of the Commissioner over the past few years.
 - As next steps in providing feedback to the Public Sector Accounting Board (PSAB) with regards to its new standard on Financial Instruments, the OFA has retained Deloitte Inc. to consult with other provinces and provide feedback to PSAB on provincial concerns with the proposed standard.
 - Continued to provide accurate agency financial statements, as well as reported provincial debt, derivatives and investments in accordance with strict legislated timelines. As in past years, the OFA's 2015–16 Financial Statements received an unqualified opinion from the Office of the Auditor General. The Auditor General's annual review of the OFA's financial reporting of the Province's debt and interest on debt presented in the 2015–16 Public Accounts continued to be free of material issues.
 - Renewed and administered long and short term credit facilities between the Province and Ontario Infrastructure and Land Corporation ("OILC").
5. *Advise on and implement corporate and electricity finance projects and policies*
- Advised on capital projects and financing options for ministries and public sector entities.
 - Continued the review of business cases for OFA borrowing requests from public bodies including a number of Ontario colleges, school boards and corporations, expected to result in a total of \$400 million in new long-term loans. Loan program annual savings are estimated to be at least \$30 million per year for a total of approximately \$230 million in cumulative savings to date.
 - Continued to provide advice on municipal debt issuance and investment activities, including the expansion of the Prudent Investor standard to other large municipalities and on the Ministry of Municipal Affairs and Housing new municipal revenue tools strategy.
 - Monitored terms and conditions of loans and loan guarantees and reviewed proposals and provided advice to the Deputy Minister and the Minister on proposed options to amend the loan guarantees and associated loan and contracts.
 - Provided analysis and advice on the Province's investment in the Ontario Venture Capital Fund, the Northleaf Venture Catalyst Fund, Ontario Emerging Technologies Fund and the ScaleUp Ventures Fund. The CEO serves on the Board of Directors, and is a Vice-Chair of, the Ontario Capital Growth Corporation (OCGC), which manages the Province's interests in these four funds.
 - Advised on and reviewed proposed contingent liabilities and indemnity agreements put forward by ministries and public bodies that would increase the indebtedness of the Province, including contingent liabilities and indemnities for major infrastructure projects, accommodation leases or broader public sector borrowing.
 - Provided analysis and advice to the MOECC on the design of the Province's cap and trade auction program as well as the procurement of a financial services provider to the WCI Inc. to provide administrative support to that program.
 - Provided analysis and advice to the MOECC on the establishment of a new climate change agency tasked with the implementation of the ministry's carbon reduction programs.
 - Providing analysis and advice on the application of Section 28 of the *Financial Administration Act* to contracts entered into by public entities that would increase the indebtedness or contingent liabilities of the Province.
 - Led the development of a new protocol for the sharing of powers and responsibilities under Section 28 of the *Financial Administration Act* between the Minister of Finance and the President of Treasury Board.
 - Provided advice to the Ministry of Research, Innovation and Science (MRIS) on private sector refinancing of the MRIS-MaRS Phase 2 loan.

- Provided advice to ministries, Crown agencies and other public entities on loan structuring and credit enhancement strategies.
- Provided advice to the MOF's Office of Economic Policy regarding the Bank of Canada's proposal to extend an Emergency Lending Facility to all provincial credit unions.
- Provided analysis and advice in support of the Ministry of Energy moving forward with secondary offerings of Hydro One shares including, in 2016-17, the secondary offering executed in April 2016.
- Provided advice alongside MOF to help facilitate discussion and progress regarding the agreement-in-principle with First Nations – in support of broadening the ownership of Hydro One by the Province.
- Through a working group, working with Infrastructure Ontario and other areas of government, provided analysis and advice in support of unlocking the value of the Province's real estate assets, including the sale of the LCBO's head office lands in June 2016, and the sales process for OPG headquarters properties.
- Provided policy analysis and advice on the implementation of the Trillium Trust, and proposed framework for making disbursements from the Trillium Trust to receiving ministries in support of public infrastructure investments.
- Provided financial analysis and advice on continuous management and implementation of the commercial agreement with Borealis/Teranet for the electronic land registry system.
- CEO served on the Assistant Deputy Ministers' review committee of the Jobs and Prosperity Fund.
- Provided analysis, advice, and the fiscal impact of the electricity sector and asset optimization initiatives for the Province's annual Budget, Fall Statement, Public Accounts and quarterly finances.
- Supported electricity policies and initiatives, focusing on potential fiscal, financial, and economic impacts on the Province and OEFC, including analysis and advice to support implementation and expansion of the Industrial Electricity Incentive (IEI); expanding the Industrial Conservation Initiative (ICI); ongoing implementation of the Northern Industrial Electricity Rate (NIER) program and its review process, the rebate for residential, small business and farm electricity bills of an amount equal to the eight per cent provincial portion of the Harmonized Sales Tax (HST) or the Ontario Rebate for Electricity Consumers (OREC); and providing analysis and advice on the stranded debt of the electricity sector.
- Provided analysis and advice on proposed new loans facilities and continued to implement new and existing loan agreements between OEFC and OPG related to supply projects and refinancing debt maturities.
- Renewed and continued to implement a credit facility between OFA and the Independent Electricity System Operator (IESO) for liquidity purposes and also provided analysis and advice to ensure financial oversight / governance of these credit facilities following the merger of the OPA and IESO.
- Continued to implement the Aboriginal Loan Guarantee Program (ALGP) to facilitate Aboriginal equity participation in renewable energy and transmission projects. As of December 31, 2016, eight guarantees totalling almost \$240 million have been approved under the ALGP. All applications are reviewed in conjunction with one or more third party due diligence providers.
- Continued to implement the ONFA, including monitoring the segregated fund values, monitoring, reviewing and providing analysis and advice on the Province's approval of OPG's ONFA Reference Plan submission in 2016 and related submissions, reviewing for approval OPG's ONFA Annual Budget submissions and disbursement eligibility and requests, and monitoring the provincial guarantee provided under ONFA to the Canadian Nuclear Safety Commission (CNSC) as part of OPG's financial guarantee requirement to the CNSC.
- Provided analysis and advice on electricity supply initiatives, including nuclear refurbishments.
- Provided continuous support on discussions related to developing infrastructure and projects in the Ring of Fire.
- Provided analysis and advice on policies to support the consolidation of Ontario's electricity Local Distribution Company sector.

6. *Ensure the successful execution of the OFA's decentralized Business Continuity Plan (BCP)*
 - Reviewed and updated the Corporate BCP Framework.
 - Business Units conducted monthly tests, ensuring their respective plans are reviewed and updated.
 - Carried out two corporate-wide BCP test exercises, and implemented improvements to the Plan based on the results of these tests.
 - Reviewed corporate BCP Command and Support Team membership.

2017–20 OBJECTIVES

Key objectives for 2017–20 include the following, as set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016:

1. Execute the Province's borrowing program
2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook
3. Manage key financial relationships
4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services
5. Advise on and implement corporate and electricity finance projects and policies

In addition to the foregoing, the OFA has also identified the following additional key objective:

6. Ensure the successful execution of OFA's decentralized Business Continuity Plan

Total Revenues and Expenditures

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017-18	2018-19	2019-20
Total Revenue	30,071	30,117	30,804	30,856	31,290
Total Expenditure	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

Further detail can be found in the Financial Budget contained in this plan.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval. Note that as part of the 2016–17 PRRT process, Treasury Board disallowed the OFA request for a two per cent inflationary increase in its budgeted allocations for the out years.

MANDATE AND GOVERNING LEGISLATION

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). CIPA sets out the objectives of the OFA. The OFA:

- conducts borrowing and investment for the Province of Ontario and manages the Provincial debt;
- provides cash management and other financial services for the Province;
- advises ministries, Crown agencies, and other public bodies on financial matters; and
- assists Crown agencies and other public bodies to borrow and invest money through external sources or through the OFA.

The OFA also provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario or OILC).

The OFA also sets out certain financial powers which OFA employees exercise on behalf of the Minister of Finance to carry out the Province's borrowing, manage the Province's debt and invest its liquid reserves.

OVERVIEW OF CURRENT AND FUTURE PROGRAM AND ACTIVITIES AND IMPLEMENTATION PLAN: 2017–20

Activities will focus on supporting the following strategic directions:

1. *Execute the Province's borrowing program*

Overview

The OFA endeavours to ensure that borrowing by the Province and OEFC is cost-effective. Total long-term public borrowing is forecast at \$23.3 billion in 2017–18 and \$28.7 billion in 2018–19. This year's objectives may be challenging to implement due to the state of the global economy/market and the resource constraints within which the OFA is operating. Furthermore, borrowing blackouts can limit the amount of time in which the OFA can access the market. This may require borrowing in excess of \$3 billion per month when these blackouts are not in effect in order to complete the annual borrowing requirement. Other challenges include:

- continued high amount of borrowing required for the Province, including the amount that will have to be undertaken outside Canada;
- competition in the markets from other large domestic and international borrowers;
- evolving regulatory requirements such as Basel III, Dodd-Frank and EMIR that continue to make hedging of foreign debt more expensive and a challenge to execute in the size required by the Province;
- potential challenges for Ontario's credit rating. A downgrade may result in borrowing costs increasing; and
- management of downgrading or failure of counterparties, and continued implementation of collateralized swaps to mitigate credit risk.

Implementation Plan

- Develop the annual Financing, Debt & Electricity Management Plans for OFA Board approval and transmission to the Minister. These plans provide detail on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
- Meet the Province's funding requirements, anticipated to average about \$25 billion annually for the business plan period, in a cost-effective and prudent manner.
- Manage the Ontario Savings Bond campaign.
- Continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

Overview

The OFA manages the debt and liquid reserve portfolios, as well as centralized/segregated investment funds, for various public bodies, and jointly manages the Ontario Nuclear Funds with OPG. Financial risks associated with capital market activities are mitigated by adhering to prudent risk management policies which minimize financial risk by ensuring exposures and losses remain within approved limits. Risk management policies and program exposure limits are approved by the OFA Board of Directors. The OFA also contributes interest on debt, borrowing and debt management objectives, and electricity sector fiscal impact projections to the Budget, Fall Statement and other quarterly financial updates.

Implementation Plan

- Generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds, for various public bodies. Manage ONFA-related investments, working together with OPG.
- Ensure interest rate, foreign exchange and credit exposures are within approved policy limits.
- Contribute to the Province's annual Budget, Fall Statement and quarterly finances, including the electricity sector outlook; advise on the potential impact of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions. Continue playing an important role in the development of the Province's annual Budget and quarterly statements through the provision of timely and accurate financial information, and preparation of the Borrowing and Debt Management section of the Budget and Fall Statement.
- Continue with the implementation of the new methodology based on assessing individual debt issues by tenor, to measure the performance of the borrowing program.
- Continue to implement applicable changes as per financial and regulatory reform requirements including evolving effects from Basel III, EMIR and Dodd-Frank. These regulations are expected to continue to make the OFA's hedging process more complex. Hedging may also continue to become more expensive if proposals such as financial transaction taxes or mark-to-market derivatives taxes are legislated and implemented in Europe or the United States.

3. Manage key financial relationships

Overview

The OFA ensures investors and the financial community in Canada and abroad receive financial updates on a timely basis to make informed decisions about Province of Ontario debt securities. Investor Relations activities support borrowing program objectives by maintaining and broadening the Province's investor base. The OFA also ensures credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these factors in their reports and rating decisions.

The OFA manages the government's relationships with financial institutions, primarily the major Canadian and global banks, their investment dealer subsidiaries, and custodial and fiscal agents. This involves the acquisition and oversight of cost-effective products and services for the Province and certain Crown corporations.

Implementation Plan

- Support the Province's borrowing program by building and maintaining relationships with investors in existing and new markets. Provide Investor Relations information products, including updates to the OFA website, on a timely basis.
- Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives.
- Manage Ontario's relationships with banks, financial service providers and investment dealers.
- Complete regulatory filings with the U.S. Securities & Exchange Commission (SEC), United Kingdom Listing Authority (UKLA), Luxembourg Stock Exchange (LuxSE), Australian Securities Exchange (ASX) and any other applicable securities regulator. Conduct due diligence conference calls, as required, with the dealers and underwriters of the Province's debt securities offerings and their legal counsel.
- Implement and maintain collateralized swap agreements with bank counterparties to limit potential financial losses as a result of a credit event.

- Manage changes in financial and regulatory reform, liaising with regulators and legal counsel, as required.
- 4. *Provide services related to cash management, banking, settlement, payment and financial and reporting*

Overview

The OFA provides centralized banking and cash management services to the Province. The effective provision of these services allows for the efficient delivery of provincial services and contributes towards minimizing interest on debt expenditures. The OFA is responsible for settlements, payments and accounting/reporting functions associated with the Province's and OEFC's debt management programs, as well as agency financial reporting.

Implementation Plan

- Identify and implement effective treasury solutions for the Province and client agencies.
- Ensure that the Province has sufficient cash available at all times to meet its financial obligations.
- While compliance with PCI Data Security Standards is now in its sustainment phase, the OFA will continue to work with the other OPS stakeholders and the credit/debit card acquirer to ensure that the mandatory external reviews continue to report that that Province is in compliance with all applicable PCI standards.
- Continue to work with American Express and TD Merchant Services, the Province's card acquirer, to explore options for the continued acceptance of American Express cards via the acquirer's existing systems for Visa and MasterCard. The new arrangement would enable Amex cards to be used to obtain Provincial goods and services in a way that mitigates risk and increases efficiency for the Province.
- After the completion of a successful pilot, continue to work with the Ministry of Community and Social Services on the rollout of a reloadable payment card for unbanked benefit recipients under the Ontario Disability Support Program.
- Continue to advise ministries and agencies on the banking and cash management components of government initiatives including modernization and suitable banking options, as well as associated legal and regulatory aspects.
- Continue to collaborate with industry associations and provincial and federal jurisdictions on modernization initiatives and issues unique to the public sector.
- Continue the delivery of timely and accurate settlement/payment services for the Province and OEFC, including OEFC power supply contract settlements.
- Continue to work on the replacement of the Public Bodies Financing System with a new, internally developed/externally sourced system capable of handling all loans issued by the OFA and the Province. Progress is expected to proceed according to schedule and it is anticipated that the new system will be operational in 2017–18.
- Continue to work with the Ontario Pension Board, MOF Income Security and Pension Policy Division and TBS on the first phase of regularizing the management of various pension plans whose assets reside in the Consolidated Revenue Fund. The first phase is aimed at transferring the regulated portion of the assets of the Judges' Pension Plan to the IMCO generating annualized savings estimated to be \$15 million.
- Work with the Office of the Provincial Controller and OPG to develop options to address the potential under PSAB for Public Accounts consolidation adjustment impacts from OPG and Hydro One results under the International Financial Reporting Standards.
- Provide timely and reliable net debt and total debt estimates for the 2017 Annual Budget and the Province's quarterly reports during the fiscal year including the Fall Economic Statement.

- Continue to provide timely and accurate financial reporting for the Province on debt, derivatives and investments. Continue to provide timely and accurate agency financial statements that pass scrutiny of the OFA Board and the Office of the Auditor General.
- Continue to work with the Office of the Provincial Controller on providing value-added feedback on Chapter 2 of the Annual Report of the Auditor General of Ontario that deals with Ontario's Public Accounts.
- Continue to monitor and assess any new accounting developments of the International Accounting Standards Board, the Financial Accounting Standards Board in the U.S., the Accounting Standards Board and the PSAB of the Chartered Professional Accountants of Canada that affect reporting for the Province and its agencies.
- Continue to work with Deloitte Inc. in consulting with the accounting and borrowing communities of the other provinces towards providing PSAB with concerns expressed by these jurisdictions and Ontario. Also with Deloitte Inc., collaborate on developing options that address the provinces' concerns. Continue to liaise with the Office of the Provincial Controller and, where required, the Office of the Auditor General of Ontario in communicating with PSAB.

5. *Advise on and implement corporate and electricity finance projects and policies*

Overview

The OFA provides financial modelling, analysis and advice to the Ministry of Finance, other ministries, OEFC, Crown agencies, and other public bodies, on financial policies and projects, electricity sector policies and initiatives, and borrowing from capital markets. The OFA also provides assistance in structuring and completing financial transactions, and securing and using private sector financial advisers. The OFA has been leading the implementation of the Trillium Trust and will also continue to work with the Ministry of Finance, other ministries, and Infrastructure Ontario on on-going asset optimization initiatives, including unlocking the value of certain real estate assets. The OFA is providing analysis and support as the Province moves forward in selling up to 60 per cent of its shares of Hydro One over time.

The OFA will also continue to support and facilitate the implementation of a number of other government initiatives, including the Cap and Trade Program and investing in Ontario's venture capital sector.

Implementation Plan

- Provide analysis and advice on business cases and other financing proposals. Develop the structure and negotiate the detailed terms and conditions of transactions to minimize costs and best meet market expectations.
- Provide advice on cost-effective borrowing, investing and risk management by public bodies.
- Provide advice on transactions requiring a provincial guarantee or those that may otherwise increase the indebtedness or contingent liabilities of Ontario.
- Develop interest rate and other borrowing, investing and risk management policies, and advise ministries, agencies and public bodies on interest rates and other financing issues.
- Support initiatives for Ontario's various industry sectors.
- Provide continued support for the government initiative on OFA loans to public bodies.
- Provide support to the government on Ministry of Finance loans and loan guarantees as required.
- Continue to provide advice to ministries, Crown agencies and other public bodies on financing, loan structuring and credit enhancement strategies.
- Provide advice as required on evaluating the Province's assets, including investments in its business enterprises, and analysis and advice on asset optimization to enhance efficiency and maximize value.

- Provide policy and financial analysis, and modelling support, as required, for electricity policies and initiatives that could have fiscal, financial and/or economic implications for the Province and/or OEFC, including the following:
 - *The Ontario Rebate for Electricity Consumers Act, 2016.*
 - Ongoing implementation of the Industrial Electricity Incentive program.
 - Ongoing implementation of the NIER program.
 - Expanding the Industrial Conservation Initiative.
 - Electricity supply and conservation initiatives.
- Provide financial due diligence and advice to the Minister of Finance on applications received under the ALGP.
- Monitor and provide electricity sector fiscal and financial projections for the Province and OEFC, including analysis and advice to the Minister of Finance on the stranded debt, as well as continued reporting on OEFC's revenue sources (e.g. the debt retirement charge (DRC) for non-residential users, now legislated to end on April 1, 2018, and payments in lieu of taxes) and expenses (e.g. interest on debt).
- Provide analysis and advice to support the effective administration of ONFA and other initiatives related to nuclear liabilities, including monitoring and reviewing OPG's implementation of its ONFA Reference Plan as updated from time-to-time, approval of yearly ONFA budgets including investment related expenses, reviewing OPG's expected financial guarantee submission to the CNSC expected in 2017, including reviewing, monitoring, and seeking approval on any implications on a Provincial guarantee to the CNSC, as provided for under ONFA.
- Provide analysis and advice on nuclear supply, financing and cost recovery issues, including for nuclear refurbishments.
- Continue to monitor, review and support policy discussions on developing the Ring-of-Fire.
- Continue to work closely with staff at the MRIS and OCGC on approaches for managing the Province's investment in the Ontario venture capital sector. Support the CEO's role as Vice Chair of the OCGC Board.
- Provide analysis and due diligence related to Jobs and Prosperity Fund applications and relevant Eastern Ontario Development Fund and Southwestern Ontario Development Fund applications.
- Continue to support the government's asset optimization initiative of broadening the ownership of Hydro One by providing financial analysis and advice, and dedication of net revenue gains from these transactions to the Trillium Trust to support investments in infrastructure.
- Provide coordination and oversight of certain real estate asset optimization initiatives, such as, the divestment of OPG's head office properties, and Seaton and Lakeview lands.
- Lead implementation of the Trillium Trust to help support investments in transit, transportation and other priority infrastructure.

6. *Ensure the successful activation of OFA's decentralized Business Continuity Plan (BCP).*

Overview

The BCP remains in place and is updated as required to be successfully activated so staff can complete critical time-sensitive tasks in the event of a business disruption.

Implementation Plan

- Review and update the Corporate BCP Framework.
- Review and update Business Unit plans.
- Plan and conduct corporate-wide BCP test exercises.

- Review corporate BCP Command and Support Team membership.

Implementation of the above strategic directions will require regulatory compliance and reliable information technology.

RISK IDENTIFICATION AND ASSESSMENT

Summary Table

Accountability	Risk Assessment	
P Primary	L Low	H High
X Additional	M Medium	EH Extremely High

Risk Assessment Summary		Accountable Business Division						Risk Assessment		
		Capital Markets	Corporate & Electricity Finance	Finance and Treasury	Legal	Risk Control	Strategic Corporate Services	Likelihood	Impact	Overall Assessment
Strategic Risks	Strategic / Policy Risk	P	X			X		L	EH	H
	Meeting Stakeholder Expectations	P		X				M	EH	H
	Public Image	P		X				L	H	M
	Quality of Relationship with Stakeholders	P		X		X		L	H	M
Accountability / Governance	Governance, Information, and Regulatory Compliance	X		P	X			L	H	M
	Risk and Issue Management			X		P	X	L	EH	M
	Statutory Requirements are met				P			L	H	M
	Reliability of Financial Systems			P				L	H	M
Operational	An economic slowdown straining the fiscal plan, thus affecting the borrowing program	P						M	H	H
	Financial Market Risk	X				P		M	H	H
	Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt	P						L	EH	H
	Risk of credit rating downgrade	X				P		M	H	H
	Credit Risk	X				P		L	H	M
	Electricity Policy and Price Risk		P					M	M	M
	Operational, including systems, internal control, and reputation risks	X	X	X	X	X	P	L	H	M
	Service Providers (e.g. custodians, fiscal agents, banks, etc.)			P				L	M	L
	Low investment returns or inadequate investment controls on nuclear funds	P						M	H	H
	Default on Loans to Public Bodies		P					L	L	L
	Default on Guarantees under the ALGP		P					L	L	L
	Increased borrowing to fund loans to public bodies		P					L	L	L
	Government Cost Constraints			P				M	H	H
	Employee Fraud			P				L	M	L
Workforce	Human Resource Risk	X	X	P	X	X	X	M	EH	H
Information Technology and Infrastructure	Privacy and Security						P	L	M	L
	Business Continuity						P	L	H	M
	Procurement			X			P	M	M	M

Risk Identification, Assessment, Mitigation Strategies

The following section identifies potential risks that could impact the entire organization in its ability to successfully deliver its programs and activities on behalf of the Province.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: STRATEGIC RISK AREA: Strategic: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with those of the OPS). The risk that strategies and policies will fail to achieve required/targeted results. The risk of failing to provide value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.					
Strategic/ Policy Risk Primary Accountability: Capital Markets Division	Strategies and policies fail to achieve required results. Prime examples are failing to meet the borrowing requirements and failures in implementing core risk management strategies.	<u>LOW</u> Past experience indicates that the likelihood of major strategic failures is relatively <u>low</u> as they cannot always be eliminated. There are elements of borrowing and risk management which are outside the Province's control which can negatively impact required results. For example, financial conditions could result in higher interest costs or interest rate risk than anticipated or refinancing risk in future years may be much higher than desired if investor demand for longer term bonds is substantially reduced.	<u>EXTREMELY HIGH</u> The financial consequences of strategic failures in borrowing or risk management strategies and associated policies can be <u>extremely high</u> , and the annual Financing, Debt & Electricity Management Plan outlines strategies which attempt to address the challenges, including contingencies for unexpected events. In addition, management monitors major market and policy developments throughout the year very closely and will develop and implement new strategies and policies if conditions warrant. Even though the likelihood of major strategic failures is low, the impact remains extremely high resulting in an overall high risk assessment.	<u>HIGH</u>	Strategic plans and policies to mitigate strategic and policy risk are initially developed and implemented in a thorough manner as outlined in the OFA's annual Financing, Debt & Electricity Management Plan ("the Plan"). This includes an analysis of risk factors and contingency plans. The Plan is approved by the respective Boards (OFA and OEFC) and receives input from Board members. Market conditions and policy developments are monitored on a continual basis throughout the year to identify new and emerging developments which could impact strategic and/or policy risks. Existing control strategies are modified as required to mitigate adverse developments. Procedures are in place to ensure that staff are aware of relevant policies. Policy violations are rare, and a robust control framework exists to identify violations quickly. Most violations would not have a large enough impact to threaten achieving required strategic results.
Meeting stakeholder expectations	The risk that the OFA may fail to meet stakeholder expectations, including those of the Province and other public bodies.	<u>MEDIUM</u> There is a <u>medium</u> likelihood of failure to meet stakeholder expectations and performance	<u>EXTREMELY HIGH</u> Given that the impact of not meeting stakeholder expectations can be <u>extremely high</u> , combined with a	<u>HIGH</u>	An analysis of risk factors and contingencies is included in the OFA's annual Financing, Debt & Electricity Management Plan. This analysis is revisited throughout the year.

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Primary Accountability: Capital Markets Division	Stakeholder expectations include strategic/policy risk factors as well as the risk of failing to meet performance benchmarks.	benchmarks. Market factors tend to be relatively unpredictable and many factors are out of OFA's control. The current environment of expanding service requirements and constrained resources adds some risk; however, it is expected to be minimal. Based on past experience, it is expected that most stakeholder expectations will be met.	medium likelihood the net result is a high risk assessment. The impact of a one percentage point increase in yields was estimated to be \$350 million for 2016–17. Although the OFA has been able to extend the borrowing term in recent years, interest rate risk will remain elevated for several years. Continuous communication with the Deputy Minister and Minister ensures that expectations for the Province are clearly understood. Commitments are made after thorough and careful analysis to ensure that resources and expertise are in place to meet those expectations. Close and continuous communication and meetings with relevant public bodies (e.g. Agencies) who use our services ensures that expectations and service requirements are clearly understood. In addition, formal service level agreements (e.g. investment management agreements) have been developed which clearly outline the services and benchmark performance standards.		Given the relatively unpredictable nature of market factors, ongoing monitoring of market and policy factors provides a level of risk mitigation. Continuous dialogue with stakeholders and regular reporting are also useful in keeping abreast of both expectations and performance. Emerging issues which may affect expectations are identified and are regularly reported to the Deputy/Chair as well as the Board (OFA and OEFC). This provides greater assurance that expectations will be met or managed through approved mitigation strategies. Meeting performance benchmarks for the Province and other public bodies also depends on adequate resources being available to maximize performance. This includes information systems services, and most importantly, staff. A highly educated and experienced workforce provides a higher likelihood that stakeholder expectations will be met. The OFA works to attract and retain highly qualified staff.
Public image Primary Accountability:	The risk that the OFA may damage its reputation with stakeholders and third party service providers.	<u>LOW</u> The likelihood of reputational risk to the OFA is low.	<u>HIGH</u> The impact of image problems can be high which combined with a low	<u>MEDIUM</u>	Public image risk is mitigated through a host of strategies: i) a strong policy framework to provide greater information to staff to make them aware of potential public image problems; ii) strong internal controls to reduce the risk of policy violations and

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Capital Markets Division		There are extensive policies to govern staff conduct including, with respect to conflicts of interest, procurement and workplace harassment. In addition, procedures are in place to ensure that staff are aware of all policies. There are also regular reporting requirements and internal controls to reduce the potential for policy violations. Dealings with the press are handled through official MOF communication staff and investor and other stakeholder information is handled with extreme care. Accordingly, the likelihood of reputational risk problems with stakeholders and service providers is low , although mistakes can happen and there are certain factors which the OFA cannot control.	likelihood results in an overall medium risk assessment.		adverse information releases; iii) public communication protocols to reduce the risk of incorrect and damaging information releases; iv) an investor relations program which is responsive to investor needs and responds to investor requests for information promptly; v) ongoing dialogue with dealers to keep abreast of information in the marketplace relating to both Ontario and the OFA; and vi) a management structure and culture which promotes security of information and extreme care in disclosing information in a public forum. Strategies iii-v involve constant communication with external stakeholders. This feedback loop provides the OFA with a method of assessing the organization's public image. The OFA has a comprehensive procurement policy that ensures that its suppliers and service providers are selected in a fair manner. When appropriate, the OFA requires that service providers obtain security clearance. OFA contracts with service providers address confidentiality and contract precedents generally require approval before a contractor may use its association with the OFA for any purpose. All substantive contracts that Capital Markets enters into in the name of the OFA must be reviewed by the OFA Legal Branch. All substantive contracts that Capital Markets enters into in the name of the Province, must be reviewed by MOF Legal.
Quality of relationship with stakeholders	The risk that the OFA's stakeholder relationships are poorly managed.	<u>LOW</u> The likelihood of failure managing OFA's stakeholder relationships is	<u>HIGH</u> The quality of the business relationships with stakeholders that the OFA is	<u>MEDIUM</u>	The OFA provides relevant, non-confidential information to investors in a fair and transparent manner, including information pertaining to the Budget and quarterly finances. Confidential information is handled in a manner consistent with laws and regulations, such as the <i>Public</i>

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Capital Markets Division		<u>low</u> as the OFA strives to deal with all of its stakeholders in a fair, transparent and responsive manner.	engaged in such as investors, credit rating agencies, dealers and employees can have a high impact on the success and cost of OFA activities. However, the likelihood of failure in these activities is relatively <u>low</u> which results in an overall medium risk assessment.		<i>Services Ontario Act, 2006</i> and the <i>Securities Act, 1990</i>. The annual Investor Relations Plan is developed each year with the goal of providing updates to investors, both domestic and international, on a regular basis through outreach and information products. Requests for information or meetings from investors are responded to very promptly. The quality of the Province's relationships with stakeholders is constantly monitored. Should the strategies in the annual Investor Relations Plan fail to achieve the desired relationship levels, the OFA can choose to engage additional financial dealers or more senior Ministry of Finance representatives to participate in its investor outreach activities. Dealers are utilized in a fair and objective manner for bond issues. A syndicate evaluation is used to rank domestic dealers objectively, and commissions for domestic bond issues are based on this annual evaluation. Dealers thus know the OFA's service priorities and understand their bond issue allocations for the year. International issues also utilize dealers based on their level of service and strengths they bring to particular markets and issuance opportunities. The OFA continuously communicates with its dealers and also has regular meetings with them, and thus relationship issues tend to be dealt with quickly. Given the high importance of Ontario's credit ratings to its borrowing program, the OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to requests for information, and facilitates participation of more specialized or senior government officials as required.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: ACCOUNTABILITY / GOVERNANCE Governance/ Accountability/ Organizational Risk: Risk that the organizational structure, accountabilities or responsibilities are not defined, designed, communicated or implemented to meet the organization's objectives, and/or that culture and management commitments do not support the formal structures. Risk of conflict of interest for board members. Inadequate ethics / codes of conduct. Inadequate definitions of roles and responsibilities. Risk of failure to comply with administrative requirements, such as directives. Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, Memorandum of Understanding or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.					
Governance, Information and Regulatory Compliance Primary Accountability: Finance and Treasury Division	The risk that oversight and governance responsibilities are not clearly defined; the risk that internal and external information produced or used is incomplete, out-of-date, inaccurate, irrelevant or inappropriately disclosed.	<u>LOW</u> The likelihood of failing in this area is <u>low</u>. Various policies and procedures define roles and responsibilities required for effective governance, including oversight by the OFA Board, chaired by the Deputy Minister of Finance, and largely comprised of independent, external members; and reporting requirements to the Minister of Finance. Furthermore, the audits by Internal Audit Division that cycle over all major functions of the OFA include a review of the associated policies and procedures and to date no material gaps have been identified. All audit recommendations are presented to the OFA ARMC and addressed within reasonable timeframes.	<u>HIGH</u> The impact of failing in this area is <u>high</u>; however, combined with the low likelihood of this happening results in a medium risk assessment	<u>MEDIUM</u>	Regular and special meetings of the OFA Board and its Committees, comprised of the Audit and Risk Management Committee (ARMC), Human Resources and Governance Committee (HRGC) and the ONFA Investment Committees (ONFA IC). The Deputy Minister of Finance is, pursuant to CIPA, the Chair of the OFA Board, which establishes a clear governance framework for OFA management and accountability to the Minister of Finance. The OFA uses secure communication procedures with internal and external parties; it also undertakes effective oversight of service providers, reconciliation processes, stringent disclosure policies, staff learning and development, and timely filing of regulatory reports.

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Risk and issue management Primary Accountability: Risk Control Division Secondary Accountability: Finance and Treasury Division	The risk that the OFA may not effectively manage and mitigate financial risks including fraud risk.	<u>LOW</u> A review process established at the OFA that includes daily compliance monitoring, division of responsibilities, and a highly-developed and rehearsed response plan for emergencies results in a <u>low</u> likelihood.	<u>EXTREMELY HIGH</u> The OFA is a major participant in capital markets and has extensive dealings with banks on behalf of the Ontario government. As a result, the potential impact for errors and omissions is <u>extremely high given the associated high dollar value.</u> The extensive mitigation strategies employed by the OFA however, reduce the overall assessed risk to Medium.	<u>MEDIUM</u>	Financial risks associated with the OFA capital market activities are managed through the OFA risk management framework, which includes policies that are updated, reviewed by the Ontario Internal Audit Division and approved by the Board on an annual basis. Compliance with policies is monitored through a daily reporting cycle including where applicable on a real time basis, and credit risks are also monitored in real time. Fraud: Division of responsibilities between divisions to create a separate front, middle and back office for capital markets transactions and appropriate separation of duties and signing authorizations within divisions reduce risk of fraud. All staff is encouraged to report any wrongdoing at all times and senior management is asked to confirm quarterly whether they are aware of any wrongdoing. Issues management: In addition to a monthly Capital Markets update letter, the CEO also reports on any issues or concerns quarterly to the Board and has regular meetings with the Chair. Division Heads/Directors report quarterly to the Board on their area's progress in achieving the objectives identified under the Annual Business Plan. The OFA's financial statements are prepared and presented on a quarterly basis to the ARMC and the Board. They are also shared with senior staff of the Office of the Auditor General. The OFA provides the interest-on-debt, debt and derivative information that is presented in the Public Accounts of the Province. The numbers and the process including the

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					underlying internal controls are audited annually by the Office of the Auditor General. Up to now, no material issues have been identified as part of this audit. OFA prepares issues notes, and feeds into the Ministry's communications branch for issues management and to address contentious issues. The Ontario Internal Audit Division develops a three year audit plan for the OFA that is updated annually. Audits under this plan, as well as special reviews as and when required provide an overall comfort level. The ARMC conducts in camera sessions with internal audit, staff of the Office of the Auditor General and the OFA's Chief Financial and Risk Officer at each quarterly meeting during which they are free to candidly raise any concerns about overall risk and issues management issues at the OFA. To avoid financial risk resulting from an inability to function during an emergency, the OFA has a highly-developed and rehearsed response plan for emergencies, addressing key risks such as fire, terrorist attack, pandemic or other threat. The work of the OFA can be carried out with all staff working from home. The OFA also maintains a collocate site at a remote location that houses a continuously available, mirrored IT infrastructure. Staff are subject to randomly declared, OFA-wide, work-from-home drills at least annually. OIAD reviews and comments on business continuity test results.

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Statutory requirements are met Primary Accountability: Legal Division	Risk of non-compliance with statutory requirements	<u>LOW</u> The likelihood of non-compliance is considered <u>low</u> because OFA staff have experience and awareness regarding legal compliance in relation to the performance of their jobs. While regulation in some areas (such as in capital markets and the banking and payment card industry) is complex and continues to evolve, program areas have ready access to legal advice.	<u>HIGH</u> Impact is considered high since failure to comply with a statutory requirement could negatively affect the reputation of the OFA and the Government. Also, violations relating to capital markets operations could have serious financial implications. Combined with a <u>low</u> likelihood, the resulting overall risk assessment is medium.	<u>MEDIUM</u>	Currently, the OFA and Ministry of Finance Legal Branches advise of statutory requirements and changes affecting OFA operations and also are available to advise on steps to effectively address any non-compliance. Information on legal requirements relating to Public Servants is distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO and the Board of Directors. CEO/Board direct remedial action (which may include learning and development). Education is encouraged and Divisions budget for necessary learning.
Reliability of financial systems Primary Accountability: Finance and Treasury Division	The risk that the OFA's financial information and reporting system is not reliable or fails to meet quality standards.	<u>LOW</u> The review process that the OFA has established including audits by the Internal Audit Division and the Office of Auditor General of Ontario ensures that the likelihood of occurrence is <u>low</u> .	<u>HIGH</u> While the impact of less than reliable financial information is indeed <u>high</u> , the low likelihood of this happening results in an overall medium risk assessment.	<u>MEDIUM</u>	The OFA has well-established processes and procedures for monitoring and reporting on its financial performance to its ARMC and Board of Directors and to the ministry as well as the Office of the Treasury Board. OFA financials are prepared on a quarterly basis for discussion, and shared with the staff of the Office of the Auditor General and approval by the ARMC and Board of Directors. In addition the OFA financials are audited annually by the Office of the Auditor General who has provided unqualified opinions on all past financials. Staff of the Office of the Auditor General also audit, on an annual basis, the OFA's work on the Province's debt and interest on debt. This annual audit includes reviewing the underlying systems and internal controls. Up to now, no material issues have been identified and the OFA has implemented all recommendations arising from this audit. Changes to accounting pronouncements are also addressed during the quarterly discussions with the ARMC and

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
					the Office of the Auditor General. Annual budgets and audited financials are submitted to the Ministry as per TBS requirements. A further level of assurance exists as a result of the work carried out by the Ontario Internal Audit Division (OIAD). OIAD develops a 3 year audit plan with consultation from Division heads and all finding and recommendations are presented to the Audit and Risk Management Committee of the OFA Board. The OFA's progress in implementing recommendations are also presented on a quarterly basis to the same committee.
Debt and Risk Management Risk Category: OPERATIONAL RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.					
An economic slowdown straining the fiscal plan, thus affecting the borrowing program. Primary Accountability: Capital Markets Division	Fiscal strain stemming from a significant economic slowdown would likely result in higher borrowing requirements. This could be experienced as much larger borrowing requirements over a fairly short time horizon or consistently higher requirements over a longer time period.	<u>MEDIUM</u> The possibility of a major downturn in economic activity or longer term slow economic growth is given a <u>medium</u> likelihood due the historical frequency of such events. The last recession was approximately eight years ago. Since then, the Ontario economy has had only modest growth in recent years, with MOF projections showing a continued trend of low to medium economic growth.	<u>HIGH</u> The impact on the borrowing program will depend in part on the extent of the economic slowdown. A large economic slowdown, perhaps a recession, would have a large impact on the borrowing program over a couple of years, but persistent sub-par growth would also be painful. The impact of a one percentage point change in nominal GDP was estimated to be \$890 million for 2016-17. The world economy is currently highly reliant on U.S. economic growth and would be at risk if that fades. Given that Ontario's borrowing requirements are already quite large, the impact	<u>HIGH</u>	The Capital Markets Division is in constant contact with external economic experts who provide forecasts and analysis on the Province's economy as well as other major economies around the globe (including Canada's). In addition, the OFA is provided with a wealth of forecasts and economic insight from the Ministry of Finance. The OFA undertakes its borrowing strategically to reduce the effects of forecasted events and also looks to pre-borrowing to the extent possible. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
			would likely be high, meaning that interest costs could increase appreciably. One result could be a reduced average term of borrowing to reduce borrowing costs or respond to reduced demand for longer term debt which would increase refinancing and floating rate risk. There could also be pressure to increase foreign exchange or counterparty credit exposures in order to reduce costs. The overall assessment of this risk is high .		
Financial market risk Primary Accountability: Risk Control Division	Higher-than- forecast borrowing requirement and/or interest rates, resulting in higher annual interest-on-debt (IOD) charges. Financial loss attributable to changes in interest rates, credit spreads, foreign exchange and liquidity risk.	<u>MEDIUM</u> Higher-than- forecast borrowing requirement and/or interest rates is given a <u>medium</u> likelihood due the historical frequency of interest rate changes, and the current medium-term forecast of provincial borrowing requirements.	<u>HIGH</u> The size of the province's annual borrowing requirement creates a <u>high</u> degree of sensitivity to market conditions, especially interest rates. IOD has generally produced cost savings compared to budget forecasts due to cost effective debt management, as well as interest rates that have been trending down for about 35 years. This experience may not be expected to continue, so financial market risk is assessed as being high. In the <i>2016 Budget</i> , it was estimated that a one percentage point increase in interest rates would have impacted IOD by approximately \$350 million for 2016–17.	<u>HIGH</u>	Sound and effective risk management infrastructure, including policies, procedures, risk management reporting, and Information Technology (IT) systems. The OFA uses a conservative risk limited approach to forecasting interest on debt expenses. This is achieved by using interest rate forecasts provided by the Office of Economic Policy for the two out years and a 15 year interest rate average for the third out year. Accurately measure and assess portfolio exposures and ensure compliance with the related limits as approved by the Board, including foreign exchange and net interest rate resetting exposure limits and IOD. Maximum foreign exchange exposure of five per cent. Maximum net interest rate resetting exposure of 35 per cent. Maximum loss policy on IOD of three per cent of budgeted IOD. The OFA has reduced the sensitivity of IOD to interest rates by extending the term of recent borrowings. It also maintains

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					exposure to foreign currency at levels far below the five per cent limit. While the policy limit for net interest rate resetting exposure is 35 per cent, the annual debt management plan sets out ranges that are usually considerably lower thus further limiting the risk.
Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt Primary Accountability: Capital Markets Division	Unable to achieve the borrowing program target of a particular fiscal year.	<u>LOW</u> The likelihood of not completing the borrowing program is low and would be based on a major market disruption or a major adverse credit situation at the Province. Both events are considered to have a low likelihood.	<u>EXTREMELY HIGH</u> The consequences of a major market disruption or a major adverse credit situation at the Province would obviously be extremely high , and thus overall risk is high.	<u>HIGH</u>	The OFA continually monitors demand for its bonds and has a strong relationship with its financial dealers. The OFA is aware, through external forecasts, Ministry of Finance advice, and its own analysis of bond markets, of the faith investors place in its bond offerings. The Capital Markets Division employs financial strategies, to reduce the effects of forecasted events. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program. The OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to request for information, and facilitates participation of more specialized or senior government officials as required.
Risk of credit rating downgrade	Risk that a credit rating downgrade from a major credit rating agency results	<u>MEDIUM</u>	<u>HIGH</u>	<u>HIGH</u>	Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Risk Control Division	in increased costs to borrowing program and/or reduced market access.	The likelihood of a credit rating downgrade is medium . The OFA has regular meetings with the agencies, and is regularly advised of rating agency concerns. Based on regular meetings with agencies and outperformance of its fiscal targets in recent years, the risk of a credit downgrade is not considered to be high, although debt levels remain high.	A credit rating downgrade, could reduce the pool of investors able to buy Government of Ontario bonds. As a worst-case, investors might be forced to sell, creating competition for our primary distribution, therefore resulting in a high impact for the Province. Note: This risk is assessed as high. The best mitigating strategy, reducing the size of the provincial deficit, is not a variable that is under the control of the OFA.		the Province's financial status priorities, and initiatives. Diversify funding sources. Increase investor relations activities. Ensure that decision-makers at Queen's Park continue to be mindful of the serious consequences of the Province not meeting or beating its deficit targets.
Credit Risk Primary Accountability: Risk Control Division	Risk that the Province incurs a significant loss because a counterparty does not meet, or defaults, on its obligations to the Province.	<u>LOW</u> The size of Ontario's borrowing program requires the OFA to be open to borrowing opportunities in a variety of currencies. As the OFA has opted to keep currency risk at very low levels, this requires that hedging transactions be entered into with bank counterparties, creating credit risk. A bank default is considered to be a low probability event.	<u>HIGH</u> A bank default would be a high impact event, however, the assessment is overall medium as a result of the OFA's implementation of a comprehensive mitigation strategy including collateralized swap agreement and limiting transaction to highly rated counterparties.	<u>MEDIUM</u>	Ensure compliance with a sound and effective credit risk management infrastructure, including: an overarching credit risk policy that is reviewed and approved by the OFA Board on an annual basis, transacting with highly rated counterparties, limiting credit exposure concentration, and ongoing monitoring of key indicators of credit and market conditions. The Province will continue to enter into collateralized swap agreements with more of its swap counterparties to limit its credit risk. Such agreements allow the Province to cap its credit risk by requiring counterparties to post collateral when marked-to-market exposures exceed specific thresholds.
Electricity related policy,	Government policy, accounting or regulatory decisions, electricity sector	<u>MEDIUM</u>	<u>MEDIUM</u>	<u>MEDIUM</u>	Provide financial analysis and advice to senior Ministry of Finance officials and government on electricity policy options and initiatives, and maintain

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
price and other risk Primary Accountability: Corporate & Electricity Finance Division	structure, and potential electricity price and market events may have an impact on the financial performance of the Province, including reduced payments to the OEFC from, for example, the Province, Ontario Hydro successor companies and municipal electricity utilities, or price mitigation measures such as the new Ontario Rebate for Electricity Consumers, thus affecting the borrowing program.	The likelihood of this risk is deemed medium . The fiscal contributions of the electricity sector can fluctuate for many reasons, including the performance of OPG and Hydro One vs forecast, policy decisions including the timing of Hydro One share sales, regulatory decisions and volatility in electricity demand/prices. Fiscal expenses are largely determined by policy decisions. Volatility and policy change impacts can be both upward and/or downward.	While the electricity sector has a significant fiscal impact, it is not large compared to the total size of the Provincial Budget. In addition, certain fluctuations are within the government's control and borrowing issues should be manageable within the larger envelope of the Province's total borrowing program. Therefore the impact is rated as medium , leading to an overall medium assessment.		relationships and work with other ministries and agencies. Monthly meetings, and as needed, with OPG to monitor and report on financial performance and updated projections versus plan, as well as monitoring of policy, accounting and regulatory issues that may have fiscal implications upon consolidation of OPG and Hydro One in Public Accounts.
Operational, including systems, internal control and reputation risks Primary Accountability: Strategic Corporate Services Division	Risk from inadequate or failed internal processes and IT systems or from external events. The possibility that internal controls may not safeguard assets or prevent errors or fraud. The risk that negative publicity about the OFA's business practices may lead to financial or reputation costs or litigation.	<u>LOW</u> The likelihood of this risk is deemed low . The OFA's mandate and operations in a capital markets environment requires the extensive use of information technology. The fact that the OFA's mandate has also increased over the past years with no corresponding increase in staff resources has also resulted in a dependence on information technology. While this has allowed for efficiencies, this dependence also gives rise to the risk that IT systems may be poorly specified, operate incorrectly, or that the use of combinations of systems may have unintended consequences.	<u>HIGH</u> The financial impact of such risks could be compounded by harm to the OFA's reputation, therefore its impact is deemed high . This risk, reduced by the mitigating strategy, is assessed as medium.	<u>MEDIUM</u>	Maintain state-of-the-art IT systems, conduct daily back up, frequent update and testing of BCP involving remote desktop and co-locate. Appropriate documentation and timely reporting; update financial controls based on best practices; continued involvement of Internal Audit in developing new functions and reviewing existing financial policies; ensure oversight of service providers. As part of its annual audit, the Office of the Auditor General issues recommendations on areas where they feel internal controls can be tightened. Monitor print media to identify OFA-specific issues to protect OFA's reputation. Centralized external communication strategy. Early involvement of legal counsel.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Service providers (e.g. custodians, fiscal agents, banks etc.) Primary Accountability: Finance and Treasury Division	Poor service from existing providers and/or lack of qualified service providers.	<u>LOW</u> The likelihood of this risk is deemed <u>low</u> . Service providers are selected through a rigorous competitive process that includes the submission of proposals covering performance standards and measures, followed by consistent internal monitoring of service quality.	<u>MEDIUM</u> Consistent internal monitoring ensures a <u>medium</u> impact for a low overall risk assessment.	<u>LOW</u>	All existing service providers provide services under a formal contract. Continue to implement and monitor service level agreements with existing providers. Continue to comply with selection criteria and contract management requirements in OFA procurement policy
Low investment returns or inadequate investment controls on nuclear funds. Primary Accountability: Capital Markets Division	If funds are not properly invested or general financial market returns are low or negative, substantial contributions could be required by one or both of the Province and OPG. In addition, the Province's reputation may be damaged if controls or investment policies deviate from industry best practices.	<u>MEDIUM</u> Prolonged poorer than targeted performance of the nuclear funds over the medium-term is given a <u>medium</u> likelihood. The nuclear funds have a very long time horizon and would be expected to have poor returns over some time periods but are required to earn real returns in excess of 3.25 per cent in the long run. The funds have exceeded the 3.25 per cent annualised real return benchmark on average since their inception in 2003, but there is some risk that cumulative average annualised returns may be inadequate in future or that the costs of decommissioning and used fuel disposal could well exceed current projections. Returns will be driven to a large extent by asset allocation and general investment returns in financial	<u>HIGH</u> The financial impact of poor performance could be quite substantial and is rated <u>high</u> given the size of the funds, and could result in substantial unexpected contributions from one or both of the Province and OPG. The overall risk assessment is high. Given the current size of the funds, a one percentage point decline in annual performance would equate to \$170 million in reduced value for the funds, which could affect future funding requirements. Such loss, however, will not translate dollar-to-dollar on the Province's annual statement of operations at consolidation, as the Province's revenue recognition related to the nuclear funds is based on historical cost, not fair value, and some of the	<u>HIGH</u>	The funds are diversified across asset classes and managers to reduce overall risk. Further diversification is being achieved as the funds move into alternative investments. The funds are also long-lived, and can be adjusted and returns recover over the long term, which result in the recovery of past Provincial contributions to cover investment return shortfalls, if any. In addition, a Statement of Investment Policies and Procedures (SIPP) and Statement of Investment Risk Policies (SIRP) are in place which outline basic policies which to a large extent address many of the risk factors. An extensive asset-liability study is undertaken every five years to attempt to optimize the asset allocation to meet the funds objectives to meet the cost requirements. Significant progress has been made in developing a comprehensive risk management framework which is expected to be implemented in 2017. In addition, the funds are closely monitored by staff and up to the respective Board levels by both the OFA and OPG including, for the OFA, by the ONFA IC. Unfortunately, the risk of sub-par returns cannot be entirely eliminated as it

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
		markets -- e.g., prolonged poor performance in equity returns or a general decline in the financial markets could be a driver of poor performance. Resourcing for the nuclear funds is relatively tight, although it is considered adequate. The likelihood of inadequate controls on the funds is assessed to be low.	impact is also mitigated by OPG's regulatory accounts for the funds related to the Bruce stations, under the Province's current accounting standards. In addition, the reputational impact of underperformance would also be high. The overall assessment of inadequate controls is high.		will be largely driven by the future market developments. Decommissioning and waste disposal costs and liability risk surprises are largely mitigated by the quinquennial ONFA Reference Plan update. The contribution schedules can be adjusted following a reference plan update to allow for returns in the funds to help cover liability revisions and past target rate of return shortfalls. The funds are audited on a regular basis which reduces the potential for fraud or other control problems. Staff monitor the funds very closely and are looking for irregularities. In addition, the funds are monitored up to the respective Board levels by both the OFA and OPG. The internal auditors of both OPG and the OFA are also proactive in examining control issues. The funds rely largely on external managers, and efforts are made to select highly professional managers who follow investment industry best practices.
Default on Loans to Public Bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of default by public bodies on OFA loans	<u>LOW</u> Although the OFA has restructured or provided a loan deferral in the past, this has been relatively rare, so an "unlikely" scenario (less than 20 per cent probability) is reasonable, and its likelihood is rated as low .	<u>LOW</u> Impact of a default may be "noticeable" and public, but loan write-downs to public bodies that are consolidated on the Province's financial statements would likely not create a fiscal impact, and, therefore, its impact is deemed low resulting in an overall low risk assessment.	<u>LOW</u>	Prior due diligence and analysis of debt repayment ability of public bodies on OFA loans. Ensure grant intercept mechanisms continue to be included in loan agreements. Early detection through loan monitoring by line ministry and restructuring of loan repayment terms.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Default on Guarantees under the Aboriginal Loan Guarantee Program (ALGP) Primary Accountability: Corporate & Electricity Finance Division	In the event of a call on an ALGP guarantee arising from a default on the underlying loan, the fiscal impact would be recorded in the fiscal year in which the claim was paid.	<u>LOW</u> Debt service reserve account, ongoing monitoring, bank account controls are in place to mitigate risk of default.	<u>LOW</u> Any default would have a negative fiscal impact on the Province in the year in which the Province paid a claim pursuant to the guarantee. As guarantees are limited to a maximum of \$50 million (unless Treasury Board approves an exception), and the average is smaller, the impact is small in the Provincial context. However, there may be a reputational impact for the Province/OFA as well.	<u>LOW</u>	Ongoing monitoring of approved loan guarantees, including project performance and compliance with loan and guarantee agreements.
Increased borrowing to fund loans to public bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of unexpected loans that were not included in the OFA Annual Borrowing and On-Lending Plan.	<u>LOW</u> Over the past five years, only one unanticipated non-school board loan caused the OFA to breach its loan contingency reserve. An “unlikely” rating of less than 20 per cent probability of occurrence is, therefore, prudent, resulting in a <u>low</u> likelihood.	<u>LOW</u> In the overall borrowing plan, any unexpected loans would likely not have a “noticeable” effect, as most incremental borrowing is not material in the context of the whole borrowing program and therefore can usually be accommodated. This results in a <u>low</u> impact and a low overall risk assessment.	<u>LOW</u>	Ensure there exists an unassigned contingency equal to 10 per cent of forecasted loans to public bodies. Push off less urgent loans for execution in the following fiscal year. For OLG and LCBO, request business updates from Regulatory Agency Oversight Division (RAOD) to identify potential borrowing requirements (e.g. for site expansion); include estimates in Borrowing and On-lending Plan. Where a policy decision is taken requiring the OFA to provide funding for a strategic project, facilitate private sector financing, especially if interest cost savings are only deemed to be minimal.
Government cost constraints	Cost constraints may limit the OFA’s ability to provide services in a timely manner.	<u>MEDIUM</u> While good budgeting process and budget to actual comparison exists,	<u>HIGH</u> If budgetary constraints are severe enough the delivery of core services will	<u>HIGH</u>	Timely budget preparation in accordance with PRRT requirements. The budget preparation process is aimed at allocating resources according to priorities.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Finance and Treasury Division		the OFA is not insulated against budgetary constraints. The likelihood is deemed <u>medium</u> .	be impacted justifying a <u>high</u> impact and high overall risk assessment.		Detailed planning and monitoring to meet priorities within cost constrained environment. Comparison on a quarterly basis between budget and actual to ensure that priorities are being met within approved expenditures. Effective financial management on a year by year basis that ensures minimal variances between budget and actual. The OFA also retains its surplus which can act as a source of funds to meet non salary related expenses upon approval from the Ministry of Finance.
Risk Category: WORKFORCE					
RISK AREA: Workforce: Operational Workforce Risks.					
Employee Fraud Primary Accountability: Finance and Treasury Division	Risk that losses will be incurred because an employee is dishonest.	<u>LOW</u> The likelihood is <u>low</u> due to stringent internal controls and systems that cannot be easily circumvented.	<u>MEDIUM</u> The impact is deemed to be <u>medium</u> resulting in an overall low risk assessment.	<u>LOW</u>	Continue to communicate code of values and measures for disclosing wrongdoing to OFA staff. Strong system of internal controls, including segregation of duties, which are regularly reviewed by internal auditors as well as the Office of the Auditor General. While no material issues have been identified to date from these audits that essentially cover the full fiscal year, all audit recommendations have been implemented. Detailed and timely exception reporting with managerial oversight.
Human Resource Risk Primary Accountability:	Risk that highly trained and specialized staff will not be available due to resignations, retirements, turnover, inability to hire, lack of skills, illness, etc.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The issue has gained traction due to the disparity between pay scales in other agencies and pension funds	<u>EXTREMELY HIGH</u> The impact is deemed <u>extremely high</u> resulting in an overall high risk assessment.	<u>HIGH</u>	Hire qualified staff; develop and implement staff retention strategies with assistance from the OFA Board and Human Resources Committee, provide support and training, where feasible provide competitive salary and benefits, foster a good and efficient working environment and a culture that

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Each Hiring Division, with support from the Strategic Corporate Services Division		compared to their OFA counterparts. As a result, overall, the pool of applicants to positions at the OFA has diminished over the past few years. Although most positions have adequate backup and succession planning, there are some areas within the OFA that are tightly staffed and some positions are highly specialized which creates vulnerability. In addition, compensation constraints have limited the ability to adequately replace staff externally at comparable experience and skill levels.			recognizes and rewards merit, set out performance plans and monitor, recognize and value achievements, good communications and teamwork, and implement employee engagement strategies. Offer results-based pay for performance, and a comprehensive and flexible benefits package. Maintain unique compensation structure for A/XOFA positions. At the end of 2016, consistent with OPS compensation, salary increases occurred for certain OFA employees, and the OPS has announced a restructuring of its non-bargaining and management compensation to be implemented over a four-year period. It is too early to tell whether these changes are sufficient to reverse the recent trend of disappointing responses to positions advertised externally and an inability to attract qualified candidates for positions in the A/XOFA classification and others including those requiring accounting designations and specialized formal education in financial engineering and information technology or investment and corporate finance experience.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: INFORMATION TECHNOLOGY & INFRASTRUCTURE RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.					
Privacy and security Primary Accountability: Strategic Corporate Services Division	Risk related to the agency's handling of sensitive/confidential information on behalf of the government Potential compromise of confidential information or personal data through identity theft, or unauthorized electronic or physical access of information	<u>LOW</u> The risk is considered low , as management ensures that staff are cognizant of the importance of information security.	<u>MEDIUM</u> The impact is deemed medium , resulting in an overall low risk assessment	<u>LOW</u>	Access to all electronic data requires authentication. Security of electronic and hard copy information is provided by enterprise IT perimeter security solutions, key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a regular basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply. New staff who work on the government's Budget are provided with training on the importance of budget security.
Business continuity Primary Accountability: Strategic Corporate Services Division	Risk that the processes in place to ensure that critical I&IT systems are not available for operation to support business requirements (disaster recovery & business continuity planning)	<u>LOW</u> The risk is considered low , as the OFA has a comprehensive Business Continuity Plan (BCP) which is regularly tested.	<u>HIGH</u> The consequences for the OFA not being able to carry out its business, even for one day, would be severe, therefore its impact is deemed high . As a result, the OFA maintains a twin of its IT infrastructure in a separate disaster recovery location (DR Site), which reduces the overall assessed risk to medium.	<u>MEDIUM</u>	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's DR Site. Critical production systems are routinely run out of the DR Site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes mobile devices and remote access services. Periodic drills are held to ensure that staff are able to use the OFA's BCP infrastructure in a productive manner.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Procurement Primary Accountability: Strategic Corporate Services Division	The procurement process has intensified in the past year causing significant project delays. The workload required to manage the process has not been offset with additional resources, annual budgeting has been impacted as projects timelines are difficult to determine and the organization is challenged to keep pace with changes in technology.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The OFA operates within the government procurement framework, adapted to its own unique requirements. The requirement to adhere to complex public sector procurement rules, as set out in the OFA's Procurement Policy has the potential of slowing down urgently needed IT infrastructure, creating a degree of risk. Some streamlining of the process has been carried out, reducing the assessed risk to medium.	<u>MEDIUM</u> The impact is deemed <u>medium</u> , resulting in a medium overall risk assessment	MEDIUM	Standardized approval forms and RFX (Request for Information, Proposal or Quotation) precedent templates streamline the procurement process. Establishing Service Level Agreements within the organization to ensure consistent timelines for document review and approvals will help ensure project deadlines are achieved. When project and procurement plans are hindered by lengthy standard procurement process, priorities will be revisited. In some circumstances, CEO approval of an exemption or a different process may be requested, if available.

ENVIRONMENTAL SCAN

Economic Conditions

The economic outlook for Ontario as described below is based on the average private sector view as of January 2017. As with all projections, there are positive and negative risks to the outlook. The most significant immediate risks to the outlook are rising interest rates and uncertainty regarding future U.S. economic policy. For business planning purposes, the OFA recognizes that it may confront increased demands to provide financing and other services.

Ontario's economy continues to grow in an uncertain global economic environment. Ontario real GDP increased 2.5 per cent in 2015. Private-sector forecasters, on average, estimate Ontario real GDP will grow by 2.6 per cent in 2016, 2.3 per cent in 2017, 2.2 per cent in 2018 and 2.0 per cent in 2019. The economic outlook is influenced by external factors, such as U.S. economic growth, oil prices and the Canadian dollar. Steady growth in the U.S. economy, along with the ongoing impacts of a more competitive Canadian dollar and low oil prices, continues to support Ontario's economic growth. Ontario's economy is expected to strengthen as growth broadens across major sectors of the economy, including household spending and exports. The recent increase in interest rates and the uncertainty tied to U.S. trade policy represents a downside risk to the Ontario economic outlook.

The United States is Ontario's largest trading partner, accounting for 80 per cent of the Province's international merchandise exports in 2015. Economic growth in the U.S. strengthened to 2.6 per cent in 2015 after rising by 2.4 per cent in 2014. According to the January 2017 Blue Chip consensus outlook, the U.S. economy is expected to grow by 1.6 per cent in 2016, 2.3 per cent in 2017 and 2.4 per cent in 2018.

The price of WTI (West Texas Intermediate) crude oil fell by over 70 per cent from its June 2014 peak of \$108 US per barrel to below \$30 US per barrel in early 2016, a reflection of strong supply and weaker global demand. WTI oil prices averaged \$43 US per barrel in 2016, down from \$49 US per barrel in 2015. The recent agreement between the Organization of the Petroleum Exporting Countries (OPEC) and other oil producers to reduce output has led to a rise in the price of oil. The current private-sector forecast average for the WTI price of oil is \$54 US in 2017 – well below levels recorded over the 2010-14 period.

Sharply lower oil prices and diverging monetary policy between Canada and the United States contributed to a depreciation of the Canadian dollar to an average of 78.2 cents US in 2015, down from 90.5 cents US in 2014. The Canadian dollar declined further in 2016, averaging 75.4 cents US. On average, private-sector forecasters expect the Canadian dollar will average 74.5 cents US in 2017.

Ontario's housing market continued to strengthen in 2016 alongside solid increases in the number of households and incomes. Sales of existing homes and resale prices rose 9.4 per cent and 15 per cent, respectively in 2016. Ontario housing starts also increased in 2016. Private-sector economists expect a soft landing in the Ontario housing market. Home resales and prices are projected to stabilize over the next few years as gradually rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand.

There are risks surrounding the housing market outlook. Home price gains in Ontario have outstripped incomes in recent years, fuelling mortgage debt accumulation. As a result, affordability in Ontario's housing market has eroded. Despite historically low mortgage rates, monthly carrying costs are elevated relative to long-term trends. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable in the event of an adverse economic shock.

Financial Markets

Moderate economic growth and headline inflation still operating below the 2 per cent target has prompted the Bank of Canada to hold the target overnight rate at 0.5 per cent since mid-2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.

In the United States, the Federal Reserve raised rates at its December 2016 meeting, citing a strengthening labour market and rising inflation. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, monetary policy in the European Union remains highly accommodative. In January, the European Central Bank announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases."

In Canada, while long-term interest rates are expected to remain at historically low levels, they are projected to gradually rise over the next few years. The expected onset of interest rate hikes by the U.S. Federal Reserve combined with the result of the recent U.S. election has already put upward pressure on Canadian bond yields.

According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018.

The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Government Initiatives

Government policy developments and financial performance in Ontario's electricity sector, including OPG, Hydro One and municipal electricity utilities, may affect borrowing requirements through the cash flows to OEFC. In particular, the Province's ongoing effort to broaden ownership of Hydro One will result in large cash flow impacts for OEFC.

The OFA will continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program. The OFA will lead the implementation of the Trillium Trust, for dedicated net revenue gains from qualifying asset sales to help fund infrastructure investments across Ontario. The OFA will also provide financial support to the Ministry of Environment and Climate Change in respect of the government's Cap and Trade program, as well as in the establishment of a Greenhouse Gas Reduction Account and a climate change agency.

The OFA will also provide financial analysis and advice in support of the Province's commitment to unlock the value of designated assets, and will continue to work with Infrastructure Ontario and other areas of government on optimizing certain holdings in the Province's real estate portfolio, in particular, the sale of OPG headquarter properties, as well as Seaton and Lakeview lands.

Regulatory Compliance

The OFA will ensure that information required to be disclosed by the Province in its debt securities offerings related documents, periodic published reports (including the Ontario Budget, the quarterly finances, the Public Accounts of the Province of Ontario and the annual fall Economic Outlook and Fiscal

Review) and other disclosures filed or submitted under applicable securities legislation, rules and regulations in the United States, the United Kingdom, Luxembourg, Australia, Switzerland and Singapore is filed on time and otherwise in accordance with those requirements. Regulatory requirements will be monitored continually to ensure the Province has ongoing access to these markets.

PERFORMANCE MEASURES

1. Execute the Province's borrowing program

Objective	Performance Measure	Target
a. Complete the borrowing program while ensuring that the Province always has adequate liquidity.	Sufficient liquidity on hand at all times to ensure the Province can meet its financial obligations. Ensure borrowing is completed with minimal negative impact on the Province's reputation in the financial markets.	Borrowing program completed and cash requirements met on a timely basis.
b. Manage the borrowing program in a sound and cost-effective manner.	The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	Achieve a percentile ranking of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by the Ontario Internal Audit Division.
c. Ontario Savings Bonds (OSB) Program	Fund borrowing requirements at cost-effective rates for a broadly based retail program which allows individual investors in Ontario to participate in providing funding to the Province. OSBs reduce other borrowing requirements which, in turn, reduces pressure on new issue spreads.	Ensure the program is cost-effective in the context of a retail borrowing program. Maintain and review Service Level Agreement between OFA and Fiscal Agent on an annual basis.

2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook

Objective	Performance Measure	Target
a. Manage outstanding debt in a sound and cost-effective manner.	Dollar savings of debt management transactions on a realized and mark-to-market basis. This methodology utilizes a risk-budgeting approach adopted by some large pension plan investment managers.	Achieve first quartile performance relative to a risk budget. Results are validated by the Ontario Internal Audit Division.
b. Preservation of capital on money market investments.	Credit losses on liquid reserves and investment portfolio of funds managed for other government bodies.	No credit losses on any investments. Generate actual returns that are within ± 2 basis points of the

Objective	Performance Measure	Target
Manage liquid reserves in a sound and cost-effective manner.	The investment return on the portion of liquid reserves invested in Government of Canada Treasury bills and similar riskless instruments compared to an average 61-day portfolio benchmark. This benchmarking process is consistent with private sector industry practice. Maintain liquid reserve levels within a pre-determined range and provide an explanation to the Board of any deviations from that range.	61-day benchmark portfolio. Results are validated by the Ontario Internal Audit Division.
c. With OPG, prudently manage the Used Fuel and Decommissioning Segregated Funds' investments.	Ensure investment management is consistent with ONFA objectives.	Manage, monitor, and analyze the performance of the funds and the performance of investment managers. Continue refinement of investment strategies, risk management, policies and procedures. Meet the real return objective of 3.25 per cent, and exceed the market benchmark over the life of the funds.
d. Prudently manage funds for government bodies through the centralized/ segregated fund initiative.	Reduce investment costs. Ensure public bodies' funds are managed consistently with investment industry best practices.	Establish and continue to efficiently manage segregated funds with government public bodies that meet client requirements.
e. Minimize financial risk by ensuring risk exposures and program losses remain within approved exposure and loss limits.	Foreign exchange exposure. Net interest rate resetting exposure. Interest on debt losses as a percent of budgeted interest on debt. Credit exposures relative to approved policy limits.	Foreign exchange exposure not to be above five per cent of total debt. The 2016–17 Financing, Debt and Electricity Management Plan had an approved range of 0 per cent to 2.5 per cent in Foreign Exchange Exposure. Currently, the exposure of 0.3 per cent of debt. The 2017–18 Financing, Debt and Electricity Management Plan will have a recommended range subject to Board of Directors approval later in the year. Net interest rate resetting exposure not to be above 35 per cent of total debt. The 2016–17

Objective	Performance Measure	Target
		Financing, Debt and Electricity Management Plan had an approved range of 10.4 per cent to 14.4 per cent in Ontario's Gross Floating Rate exposure, with a target of 12.4 per cent. Interest Rate Resetting Exposure is expected to be 11.2 per cent as of March 31, 2017, with an expected range of 9.2 per cent to 13.2 per cent. A new range and target for Floating Rate and Interest Rate Resetting Exposure will be approved in the 2017–18 Financing, Debt and Electricity Management Plan. IOD losses not to exceed three per cent of budgeted Interest on Debt. Credit exposures to be kept within approved policy limits.
f. Use risk control policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies are kept current with industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments and risk management reporting are to be reviewed annually, and amendments or decisions not to amend are to be approved by the Board of Directors. Review limits on net interest rate resetting, foreign exchange and credit exposures, and credit concentration. Calculate and report exposures daily. Perform monthly stress testing on the Province's market and credit exposures.
g. Measure and report performance of the Province's borrowing, debt management, and investment programs.	Timeliness and accuracy of performance measurement and reporting.	Report on borrowing and debt management performance daily, and on the money market program performance monthly.

Objective	Performance Measure	Target
h. Evaluate the potential impact of stressed capital market conditions on OFA programs and IOD.	Conduct stress tests of the credit exposures, and IOD, and report the results as described in the risk management policies.	Stress testing is performed and reported on a monthly basis as described in the risk management policies.
i. Forecast interest on debt (IOD) for the Province and the OEFC.	Forecasts for the current year and medium-term are provided for the Budget, Fall Statement and quarterly finances.	IOD forecasts for the current year and medium-term to be provided for the Budget, Fall Statement and quarterly finances in a timely manner.
j. Assess the credit quality of municipalities and other approved entities applying for Infrastructure Ontario loans and provide credit risk advice to the Credit Review Committee (CRC)	Review loan applications and analyze reports. Attend CRC meetings to provide advice and vote on each application.	Provide an advisory role at Infrastructure Ontario's CRC meetings.
k. Contribute to key ministry documents, including the Budget, Fall Statement, and quarterly finances; and advise on financial implications of government initiatives.	Advise on potential financial/treasury implications of government initiatives on IOD, borrowing objectives, credit ratings, and financial markets' reactions. Complete the Borrowing and Debt Management chapter, including the Financing Table, in the Budget and Fall Statement.	Ensure potential financial/treasury implications are considered in developing government financial objectives, including meeting the requirements of the <i>Fiscal Transparency and Accountability Act</i>. Provide the Borrowing and Debt Management chapter in the Budget and Fall Statement; and update Ontario's Financing Program in Ontario Finances (quarterly).

3. Manage key financial relationships

Objective	Performance Measure	Target
a. Manage Ontario's relationships with domestic and international investors.	Maintain dialogues with investors, investment dealers and the international investment community by providing timely financial updates, including investor publications and securities filing documents.	Continue to monitor fixed income markets, economic conditions, and investors' interests and requirements to ensure road shows are effective for both the Province and its investors. Investor Relations to continue to track meeting activity with investors. Program benchmarks to include number of meetings with new accounts, effectiveness of communications material and website usage. Provide IR information products, including updates to the OFA website, on a timely basis. Meet ongoing disclosure and regulatory filing requirements with the SEC, UKLA, LuxSE, ASX, SIX Exchange Regulation and the SGX. Provide panelists or speakers at domestic and international industry conferences.
b. Manage Ontario's relationships with the credit rating agencies.	Ensure that credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these in their reports and decisions.	Following the release of the Budget, senior OFA and Ministry of Finance staff will meet with the rating agencies. Throughout the year, agencies will be kept informed of the government's ongoing economic and fiscal progress.
c. Manage Ontario's relationships with banks, financial services providers, and investment dealers.	Maintain relationships with banks, financial services providers, and investment dealers who provide the Province with banking, underwriting, custodial and fiscal agency services, thereby maintaining the Province's reputation and supporting its strategic direction to provide financial and cash management services. Maintain relationships with swap counterparties.	Ensure banking, underwriting, custodial and fiscal agency services provided to the OFA are cost-effective with minimal impact on IOD. Promote Toronto as a global financial centre. Ensure compliance with existing collateralized swap agreements in a timely and accurate manner on a daily basis. The OFA will endeavour to enter into collateralized swap agreements with more swap counterparties to limit credit risk.

4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services.

Objective	Performance Measure	Target
a. Arrange OPS-wide cost-effective banking services that minimize the Province's expenditures.	Acquire cost-effective banking products and services to support government ministries' program delivery, Crown agencies' banking activities and OFA's debt and investment management activities through the government's tendering process.	Issue, award and implement tenders for banking and financial services to ensure service continuity and program area needs are met. Monitor vendors' post-implementation performance. Work with central agencies, ministry program areas, and financial service providers to increase take up of existing electronic payment mechanisms and identify industry trends and new banking technology, which can be leveraged to reduce costs and improve service delivery and back-office processes. Ensure continued compliance with mandatory requirements imposed by external parties such as Federal bodies and industry groups. Participate in government and industry working groups/task forces on developing innovative solutions to enhance banking and payment efficiencies. Provide comprehensive and timely banking advice to program areas and agencies supporting government initiatives.
b. Provide centralized cash management services that maximize liquid reserves returns.	Ensure the provision of timely and accurate cash information for the development of the Financing Table in the Annual Budget and Fall Economic Statements. High service standards on service contracts with client agencies to maintain client satisfaction.	Provide actual and forecast liquid reserve numbers for the Financing Table in the Province's Quarterly Statements and Annual Budget that stand up to scrutiny by internal and external stakeholders. Ensure relevant performance measures in client agency agreements are met or exceeded.

Objective	Performance Measure	Target
c. Timely and accurate forecasts to align borrowing with cash management requirements, helping to reduce IOD.	Reliable and accurate cash forecasts for the Province and client agencies.	Ensure that the Province has sufficient cash available at all times to meet its financial obligations. Continually enhance the Cash Management System, keeping it responsive to changing needs, technology, and the IT environment within the OPS, i.e. IFIS renewal and Hyperion.
d. Advocacy of best practices in cash management across the OPS	Policy advice where required to assist programs in complying with the Cash Management Directive.	Improved compliance with the Cash Management Directive; implementation of policies more in line with best practices.
e. Provide efficient, accurate and timely settlement and payment processes, and implement appropriate settlements industry best practices.	Ensure debt management, investments, derivatives, and loans are recorded and processed efficiently and accurately. Ensure that ITS, the OFA's system of record for debt, derivatives, and assets, continues to operate effectively. Adoption of industry best practices.	Make system and procedural enhancements to improve the efficiency and effectiveness of settlements' functions, and continue to mitigate operational risk. Replace the Public Bodies Financing System with a user friendly and efficient system that is either developed internally or sourced externally.
f. Provide timely and accurate financial reporting for the Province in relation to debt, derivatives and investments, and the agency financial statements.	Ensure security and proper records of transactions. Provide high quality financial information for publication in a timely and accurate manner.	Enhance internal controls on accounting records by applying best practices and staff training. Prepare internal reporting to ensure data integrity. Through research and continuous review, ensure that accounting records and financial reporting are prepared in accordance with applicable PSAB requirements. Provide timely and accurate information for the Province's Budget, Estimates, quarterly Finances and Public Accounts. Provide timely and accurate agency financial statements that pass the scrutiny of the OFA Board and its Audit and Risk Management Committee as well as the Office of the Provincial Auditor General.

Objective	Performance Measure	Target
g. Monitor and assess accounting developments that affect the financial reporting for the Province and its agencies.	Keep abreast of current accounting developments in various jurisdictions: the International Accounting Standards Board (IASB), the Financial Accounting Standards Board in the U.S. (FASB), and the Accounting Standards Board and the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.	Continue to monitor developments in accounting standards set by PSAB and other standard setting bodies that may affect the Province and agency reporting. Provide advice to the Office of the Provincial Controller, on developments in accounting standards that impact debt and related areas. In coordination with other provinces, actively bring the collective concerns of Ontario and the other provinces on the Financial Instruments standard to PSAB. Continue to liaise effectively with the Office of the Provincial Controller and the Office of the Auditor General of Ontario in making recommendations and/or responses on PSAB's review of these standards.

5. Advise on and implement corporate and electricity finance projects and policies

Objective	Performance Measure	Target
a. Provide financial analysis and advice on financing and other proposals that have capital markets implications. Develop the structure and negotiate the detailed terms and conditions of any transactions to minimize costs and best meet market expectations.	Cost-effective leasing policies and structures. Appropriate due diligence on financing aspects of asset management projects. Comprehensive advice on structuring and completing financial transactions. Accurate determination of value for money benchmarks and evaluating and recommending interest rates.	Comprehensive, timely and accurate advice to support objectives. OFA to be viewed across the government as a centre of excellence in financial analysis and providing high quality financial advice.
b. Provide financial analysis and advice on cost-effective borrowing, investing, and risk management by public bodies. Negotiate the detailed terms and conditions of any loans to be guaranteed to minimize costs and	Borrowing and investing through financial markets as cost-effectively as possible and within appropriate risk management frameworks for each client.	Comprehensive, timely and accurate advice to consolidated public bodies.

Objective	Performance Measure	Target
best meet market expectations.		
c. Provide financial analysis and advice on transactions requiring a provincial guarantee or that may otherwise increase the indebtedness or contingent liabilities of Ontario.	Comprehensive, accurate and timely review and identification of risks and potential risk mitigation strategies.	Comprehensive, timely and accurate advice as required.
d. Provide analysis and advice on electricity policies and initiatives that have potential financial, fiscal, and/or economic implications on the Province and/or OEFC.	Early identification and development of options to effectively deal with opportunities, pressures and/or risks to the Province or OEFC.	Comprehensive, timely and accurate analysis and advice, as required, including on the following: • Electricity supply, conservation, transmission, distribution and other electricity price mitigation initiatives. • Nuclear supply, including nuclear refurbishments. • Ongoing implementation of the ALGP. • Ongoing implementation of IEI program, ICI, NIER program, and the OREC.
e. Analysis and modelling to support the OEFC's objectives, including monitoring of OPG and Hydro One results.	Concise, accurate and timely reports and briefings as required.	Provide analytical and modelling support, as required, for the OEFC annual audit and reporting process. Continue regular financial update meetings with OPG to monitor financial performance. Provide required analysis to support management of NUG contracts (e.g., contract/rate negotiations, and NUG litigation.)
f. Provide electricity sector projections for the Province and the OEFC.	Ensure projections are provided in a timely manner, using best available information and reasonable assumptions.	Provide projections for the current year and medium-term for the Province's Budget, Fall Statement and quarterly finances; as well as projections for OEFC on an annual and quarterly basis. Provide regular updates on projections versus plan.

Objective	Performance Measure	Target
g. Analysis and advice to support the effective administration of ONFA, including approving annual budgets, monitoring fund balances, managing the Provincial Guarantee provided to the Canadian Nuclear Safety Commission (CNSC), and monitoring policies and other initiatives related to nuclear liabilities.	Comprehensive and appropriate due diligence performed on annual budgets, reference plans, disbursements and financial documents.	Review and approve annual budgets, including investment related expenses, change requests, and disbursements as per ONFA timelines. Ensure budgets are consistent with approved reference plans and only eligible costs are funded. Ensure fund flows follow ONFA requirements through audits and review of financial documents. Review and monitor plans and projects related to managing nuclear liabilities for decommissioning and waste management. Monitor and review the ONFA Reference Plan and the required level of the Provincial Guarantee to the CNSC as nuclear liability estimates are revised and as segregated funds change in value. Provide analysis and advice on OPG's contribution schedules and the Provincial Guarantee that is provided under ONFA to the CNSC.
h. Provide advice, as required, on evaluating the Province's assets, including investments in its business enterprises and analysis and advice on optimisation to enhance efficiency and maximize value.	Ensure required analysis, advice, and briefings are comprehensive, timely and accurate.	Provide timely and highly reliable financial advisory services as required, including modeling, option development, and the identification of key considerations to support OFA, Ministry of Finance and Provincial decision-making. Provide financial analysis and advice related to the Province's holdings of Hydro One shares and the sale/merger of Hydro One Brampton. Provide analysis and advice related to optimizing the Province's real estate portfolio, in particular the sale of OPG headquarters properties, Seaton and Lakeview lands.

Objective	Performance Measure	Target
i. Provide financial analysis and advice on corporate issues and initiatives	Ensure required analysis, advice, and briefings are accurate, timely, and comprehensive.	Provide expert financial analysis and advice as required, including modeling proposals and structuring transactions. OFA CEO, or delegate, participation and leadership on Boards and Committees overseeing these initiatives.

6. Ensure the successful activation of OFA's decentralized Business Continuity Plan

Objective	Performance Measure	Target
a. Review and update the Corporate BCP framework and business unit plans.	Business units being able to successfully complete their identified critical time-sensitive tasks from decentralized locations.	Maintain staff awareness and readiness to implement the Corporate and business units' plans to meet business requirements in the event of a business disruption. Conduct and assess periodic BCP tests.

HUMAN RESOURCES

Staff allocation for 2016–17 is 166 positions, or full-time equivalents (FTEs), excluding leaves of absences. Between 2007–08 and 2016–17, the borrowing program is projected to increase by 32 per cent, from \$18.0 billion to \$23.8 billion, and the Province's net debt is projected to increase by 103 per cent, from \$156.6 billion to \$317.9 billion. The OFA's operating costs (forecasted) increased by 20 per cent, from \$22.5 million to \$27.1 million, and FTEs dropped by three per cent, from 172 to 166.

The OFA continually reviews its recruitment and retention strategies to ensure it is able to attract and retain qualified staff. Some of the initiatives that have been implemented include supporting flexible work arrangements, and implementing diversity, inclusion and accessibility strategies. Approximately 85 per cent of the OFA is on the government compensation plan, which is controlled centrally. All but five positions are excluded from collective bargaining.

The OFA will continue to work with the Human Resources and Governance Committee of the OFA Board and the Ministry of Finance Human Resources Branch to develop further initiatives to promote staff retention and skills development. The OFA will also continue to work with the OPS Recruitment Centre to enhance the OFA's ability to attract qualified candidates. This will ensure the OFA can meet its current and future business priorities. Initiatives may include providing opportunities for staff to participate in learning and development courses, job shadowing, secondments, and special projects to the extent feasible to enable continuous learning and enhance succession planning.

FINANCIAL BUDGET

OFA Multi-Year Operating Expenditure Forecast

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Salaries	19,055	19,055	19,876	20,273	20,679
Benefits	2,195	2,195	2,299	2,345	2,392
ODOE	5,802	5,802	5,352	5,412	5,513
Sub-total Cash DOE	27,052	27,052	27,527	28,030	28,584
Add: Amortization	881	863	789	764	786
Less: Capital Expenditure	(865)	(865)	(817)	(785)	(795)
Direct Operating Expense	27,068	27,050	27,499	28,009	28,575

Staffing levels are forecast to remain at 166 positions (FTE basis) over the planning horizon.

The tables and financial statements included in this document have been prepared on an accrual basis of accounting to correspond with the OFA Financial Statements.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

OFA - Income Statement Projections

(in thousands of dollars)	2016-17		Forecasts*		
	Budgeted	Interim Forecast	2017-18	2018-19	2019-20
Revenue					
Interest Revenue	3,003	3,067	3,305	2,847	2,715
Cost Recovery from the Province	22,207	22,206	22,640	23,034	23,485
Cost Recovery from agencies /related parties	4,861	4,844	4,859	4,975	5,090
Total	30,071	30,117	30,804	30,856	31,290
Expenditure					
Operating Expense	27,068	27,050	27,499	28,009	28,575
Total	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

*Forecasts represent the submission through 2017-18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

STRATEGIC CORPORATE SERVICES

Strategic Corporate Services Division (SCSD) is accountable for delivering robust Information Technology, Strategic Human Resources Management, Records and Information Management, Procurement and Policy Management, Facilities Management and Physical and Cyber Security Services. Enhancements to each of these areas drives efficiency, auditability and consistency throughout the organization. SCSD ensures the OFA's and OEFC's core business objectives are supported by reliable, dedicated, customized and integrated technology infrastructure, business applications, administrative process and access to external real-time data sources.

A major focus of SCSD is to support the OFA's core operational business processes. By actively assessing and adjusting the underlying functions that enable the day-to-day business needs, SCSD is able to provide streamlined solutions that increase the safety and wellbeing of the staff, further the OPS Diversity and Inclusion commitments, and provide transparency into procurement and human resource activities.

In addition, reliable and secure information technology is essential to the OFA's ability to deliver its mandate. To that end, SCSD strives to ensure that business applications and related services are not down more than four times a year for a period greater than 30 minutes for each occurrence during normal business hours. The OFA's financial business functions are powerfully supported by SCSD's technology infrastructure, providing availability, integrity, security, and capacity via high-performance, highly-redundant systems at a competitive cost. SCSD can effectively deliver and maintain state-of-the-art financial systems and services because of OFA's internal management of information technology.

The following initiatives will be carried out over the next three years to support the OFA's strategic direction and objectives:

Initiative	Duration	Contribution to key OFA activities
Automate and enhance structured, processes across the organization such as Asset and Inventory Management.	2017–18	Address the organization's increased focus on procurement practices.
Increase the effective management and delivery of IT projects through centralized, standardized processes and controls.	2017–18	Continue to enhance delivery and effectiveness of resources in project management efforts. Support OFA objectives in the delivery of technical initiatives.
Expand core systems to track new government initiatives, allow for greater flexibility in hedge portfolio group splitting, strengthen bond and swap pricing modules and Implement applicable changes as per financial and regulatory reform requirements.	2017–19	Support a large borrowing program and the corresponding large volume of associated hedging activity; provide flexibility to support the commodities hedging program conducted by the OFA for Metrolinx; and the continuation of new government initiatives, including Ontario Green Bonds, and the Trillium Trust.
Through iterative enhancements to technology and policy, ensure the security of information assets and infrastructure across multiple platforms.	2017–19	Address increased requirements for integrated communication solutions as well as data anytime, anywhere. Enhance support for the OFA's BCP.

Creating and enhancing OFA business dashboards to gain increased insight and enhance trading and portfolio management information.	2017–19	Provide OFA executives with timely information to support treasury and borrowing program activities.
Creating and enhancing KPIs and dashboards, reporting mechanisms to measure the performance of delivered corporate services.	2017–19	Provide OFA executives with timely information to support business activities.
Continuous IT infrastructure improvement that will enhance performance, increase capacity, and make the OFA's computing solution highly available.	2017–19	The OFA's financial business functions are well supported by its robust IT infrastructure, which is essential for the OFA to carry out its mandate.
Continuous IT security improvement that will ensure the integrity of the OFA's IT network and prevent any unintended data loss or unauthorized access. Review, revise, and develop IT policies and procedures based on emerging business or technology requirements.	2017–19	The OFA is proactive in ensuring that its systems are highly secure.
Continuous IT service delivery enhancement that will improve the process of incident management, change management, and problem management. Implement SCSD Service Catalogue and Configuration Management Database (CMDB).	2017–19	The OFA's financial business functions are well supported by various IT Services. A better service delivery framework is essential to deliver IT Services professionally and on a timely basis.
Streamline procurement through a centralized, process-driven methodology.	2017–20	Provides clear accountability, auditability and transparency.
Implementation of an Information Management Strategy that transitions the treatment of information from 'data' to an 'asset'.	2017–20	Promotes the retention of corporate knowledge within the organization.
Continuous Enterprise Project and Portfolio Management that will improve the ability to track, report and deliver on business and technology initiatives.	2017–19	Provides clear accountability, auditability and transparency.

INITIATIVES INVOLVING THIRD PARTIES

There are no third parties, other than the provincial government, with which the OFA is partnering or with which it has a funding relationship for the purpose of delivering OFA programs. Moreover, the OFA does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

IMPLEMENTATION PLAN

For 2017–20, the OFA intends to implement its business plan using existing resources and allocations.

COMMUNICATION PLAN

Business Plan

The OFA Business Plan serves as an internal tool for management and staff in the development of program plans and, through the regular reporting of the status of initiatives to the Board of Directors, it serves as a performance measurement tool. The plan also communicates the OFA's business objectives to the Minister of Finance and the Ministry.

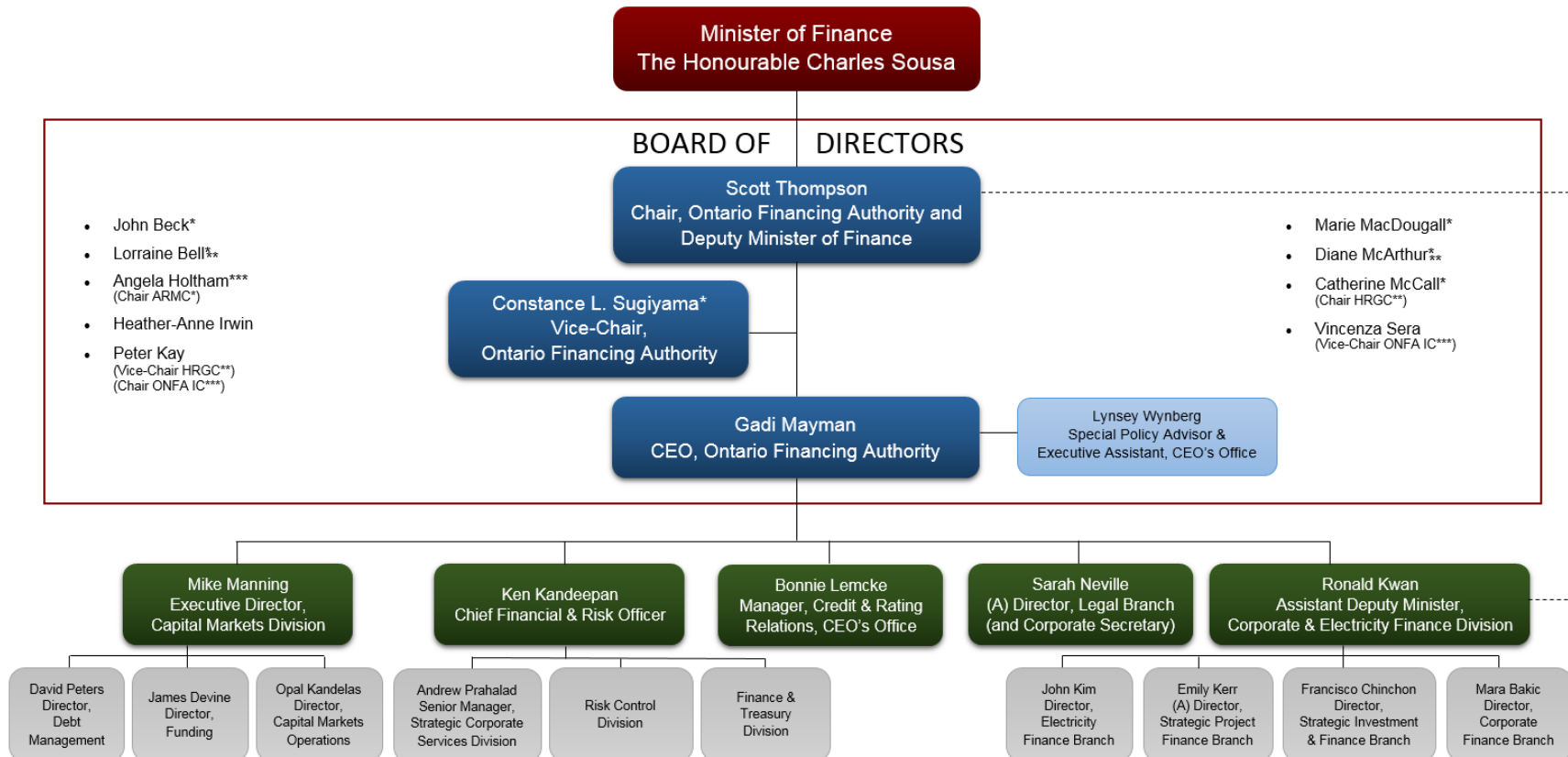
Other Communications

The OFA has a number of external stakeholders, including institutional and retail investors, investment dealers, banks, and credit rating agencies. In 2017–20, the OFA will communicate with stakeholders using various methods including:

1. Websites (including expense information): www.ofina.on.ca; www.ontariosavingsbonds.com; www.ofina.on.ca/algp;
2. Budget and quarterly updates: develop borrowing and debt management components;
3. Fact sheets, investor relations presentations, and other investor material (available on the website);
4. Annual Report (as required by the *Capital Investment Plan Act, 1993*);
5. Regulatory filings;
6. Business Plan; and
7. Memorandum of Understanding (MOU).

Other methods of communication to be used throughout the year are investor relations meetings and regular discussions with credit rating agencies. In addition, the OFA is responsible for the development of communications vehicles for OEFC and will continue to maintain the OEFC website, www.oefc.on.ca, and to produce the OEFC annual report.

ORGANIZATIONAL CHART



* ARMC = Audit & Risk Management Committee

** HRGC = Human Resources & Governance Committee

*** ONFA IC = Ontario Nuclear Funds Agreement Investment Committee

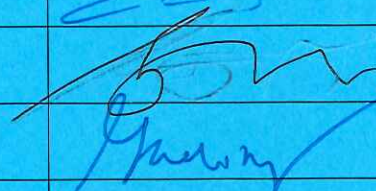
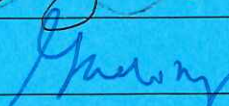
General Information

Item 2017-20 Ontario Financing Authority (OFA) Business Plan		Deputy Minister's Office Contact
Division Ontario Financing Authority		Branch Investor Relations
Date Prepared Feb. 21, 2017		Prepared By Serena Ly
Minister's Approval Required ☒ Yes ☐ No	Date Approval Required	Return To Christina Zhang (416) 325-8032

Description

OFA Board of Directors approved the 2017-20 Business Plan on February 10, 2017.

Standard Approvals

Title	Name	Signature	Date
Manager	Erica Wieder		Feb. 21, 2017
~~Director~~ Chief Financial & Risk Officer	Ken Kandeepan		Feb 22/17
Chief Executive Officer	Gadi Mayman		Feb 22/17
Assistant Deputy Minister / CAO			
Deputy Minister	Scott Thompson		

Supplemental Approvals

Area	Name	Signature	Date

Comments

Deputy Minister's Office Tracking

File Name	File Location
Key Words	

Ontario Financing Authority

1 Dundas St W, Suite 1400
Toronto ON M7A 1Y7
Tel.: 416 325-8002
Fax: 416 325-8005

Office ontarien de financement

1 Rue Dundas ouest, Bureau 1400
Toronto ON M7A 1Y7
Tél. : 416 325-8002
Téléc. : 416 325-8005



February 21, 2017

MEMORANDUM TO:

Scott Thompson
Deputy Minister of Finance
Chair, Ontario Financing Authority

FROM:

Gadi Mayman
Chief Executive Officer, Ontario Financing Authority

SUBJECT:

Ontario Financing Authority 2017–20 Business Plan

I attach the Ontario Financing Authority's (OFA) 2017–20 Business Plan for submission to the Minister for his approval.

The Agencies and Appointments Directive (AAD) requires provincial agencies to develop a Business Plan annually for a minimum three-year period. The Business Plan must be approved by the OFA's Board of Directors and the Minister of Finance. The Plan is considered valid only after the Minister has approved it by affixing his signature.

Treasury Board/Management Board of Cabinet (TB/MBC) may request the Minister submit the Business Plan for review by TB/MBC at any time.

When the Minister approves the OFA's Business Plan, the Business Plan becomes a document that the Minister and Ministry of Finance may use to hold the OFA accountable.

The OFA Board of Directors approved the OFA's 2017–20 Business Plan on February 10, 2017. It has also been reviewed by Ministry of Finance staff as required under the Treasury Board Secretariat (TBS) Guide to Developing Business Plans for Provincial Agencies.

I also attach a letter of transmittal for your signature to be forwarded with the 2017–20 Business Plan to the Minister for his approval.

Gadi Mayman

Attachments

Ministry of Finance

Frost Building South
7 Queen's Park Cr
Toronto ON M7A 1Y7
Tel.: 416 325-0400
Fax: 416 325-1595

Ministère des Finances

Édifice Frost sud
7 Queen's Park Cr
Toronto ON M7A 1Y7
Tél. : 416 325-0400
Télec. : 416 325-1595



February 21, 2017

MEMORANDUM TO: The Honourable Charles Sousa
Minister of Finance

FROM: Scott Thompson
Deputy Minister of Finance
Chair, Ontario Financing Authority

SUBJECT: Ontario Financing Authority 2017–20 Business Plan

Please find attached for your review and approval, the Ontario Financing Authority (OFA) 2017–20 Business Plan.

The Agencies and Appointments Directive (AAD) requires provincial agencies to develop a Business Plan annually for a minimum three-year period. The Business Plan must be approved by the OFA's Board of Directors and you. The Plan is considered valid only after you have approved it by affixing your signature.

Treasury Board/Management Board of Cabinet (TB/MBC) may request that you submit the Business Plan for review by TB/MBC at any time.

When you approve the OFA's Business Plan, the Business Plan becomes a document that you and the Ministry of Finance may use to hold the OFA accountable.

The OFA Board of Directors approved the OFA's 2017–20 Business Plan on February 10, 2017. It has also been reviewed by Ministry of Finance staff as required under the Treasury Board Secretariat (TBS) Guide to Developing Business Plans for Provincial Agencies.

Please sign the front cover of the attached Business Plan if you approve the OFA's 2017–20 Business Plan.

Scott Thompson

Attachment

From: [Bonnie Lemcke](#)
To: [Gadi Mayman](#)
Cc: [Ken Kandeepan](#); [Christina Zhang](#)
Subject: FW: S&P and DBRS Research on OPG
Date: Wednesday, March 01, 2017 11:45:23 AM
Attachments: [OntarioPowerGenerationInc DBRS April 6. 2016 pdf.pdf](#)
[OntarioPowerGenerationInc S&P July 12. 2016 pdf.pdf](#)

Here are the latest 2 rating reports on OPG.

Bonnie

From: David Cross
Sent: Wednesday, March 01, 2017 11:39 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: S&P and DBRS Research on OPG

Press Releases



Insight beyond the rating.

Date of Release: April 6, 2016

DBRS Confirms Ontario Power Generation Inc. at A (low), R-1 (low), Stable Trends

DBRS Limited (DBRS) has today confirmed the Issuer Rating and Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A (low), and the Commercial Paper rating at R-1 (low), all with Stable trends. The confirmation is largely based on the continuing financial support from the Company's shareholder, the Province of Ontario (the Province; rated AA (low) by DBRS). The Province, through its agent the Ontario Electricity Financial Corporation (rated AA (low) by DBRS), provides most of OPG's financing (approximately 63% of total debt). The Company's remaining debt is in the form of non-recourse project finance debt.

The Province announced in January 2016 that OPG will be moving forward with the refurbishment of the Darlington Nuclear Generating Station (the Darlington Refurbishment). The project has a final budget of \$12.8 billion, and the refurbishment of the first unit is scheduled to begin in October 2016, with the last unit to be in-service by 2026. DBRS believes that given the complexity and scale of the Darlington Refurbishment, there is significant execution risk as well as the potential for cost overruns. The high capital expenditures (capex) required, albeit spread over a ten-year period, in addition to ongoing maintenance capex (total capex forecast of approximately \$2 billion for 2016), are expected to pressure OPG's key credit metrics. Although the Company's cash flow-to-debt and debt-to-capital ratios have remained strong, DBRS expects leverage to increase to approximately 40% during this period of high capex. Additionally, profitability for OPG continues to be challenged as evidenced by the negative EBIT-interest coverage ratio for the year. DBRS notes that while the in-service of the Lower Mattagami River Project and the prescription of 48 previously unregulated hydroelectric facilities to regulated rates in late 2014 have helped improve OPG's EBITDA, the Company's reported corporate return on equity (ROE; 4.1% in 2015) remains far below the approved ROE of 9.3%. This has largely been due to the high cost base of OPG, which has resulted in several disallowances by the Ontario Energy Board (OEB) for the Company to recover forecasted compensation expenses.

OPG plans to submit a five-year application with the OEB later this year for new regulated rates effective 2017. The OEB has expressed that it expects prices for hydroelectric operations to be based on an incentive regulation (IR) ratemaking methodology, and that prices for nuclear operations be based on a multi-year forecast cost-of-service approach with IR features. DBRS believes that profitability for OPG could continue to be challenged following a switch to an IR framework, as the introduction of productivity and efficiency targets could further depress earnings. However, through its Business Transformation initiative, OPG has demonstrated its ability to improve efficiency by reducing regular headcount from continuing operations by

approximately 2,700 personnel since 2011. Furthermore, earnings should also benefit from the growth in the rate base as Darlington Refurbishment pre-requisite projects are completed, and new regulated rates in 2017.

Notes:

All figures are in Canadian dollars unless otherwise noted.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link to the right under Related Research or by contacting us at info@dbrs.com.

The applicable methodologies are Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry (October 2015), DBRS Criteria: Guarantees and Other Forms of Support (February 2016), and DBRS Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers (April 2015), which can be found on our website under Methodologies.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

DBRS will publish a full report shortly that will provide additional analytical detail on this rating action. If you are interested in receiving this report, contact us at info@dbrs.com.

Ratings

Issuer	Debt Rated	Rating Action	Rating	Trend	Notes	Published	Issued
Ontario Power Generation Inc.	Commercial Paper	Confirmed	R-1 (low)	Stb		Apr 6, 2016	CA
Ontario Power Generation Inc.	Issuer Rating	Confirmed	A (low)	Stb		Apr 6, 2016	CA
Ontario Power Generation Inc.	Unsecured Debt	Confirmed	A (low)	Stb		Apr 6, 2016	CA

US = USA Issued, NRSRO

CA = Canada Issued, NRSRO

EU = EU Issued

E = [EU Endorsed](#)

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Summary:

Ontario Power Generation Inc.

Primary Credit Analyst:

Andrew Ng, Toronto (416) 507-2545; andrew.ng@spglobal.com

Secondary Contact:

Stephen R Goltz, Toronto (416) 507-2592; stephen.goltz@spglobal.com

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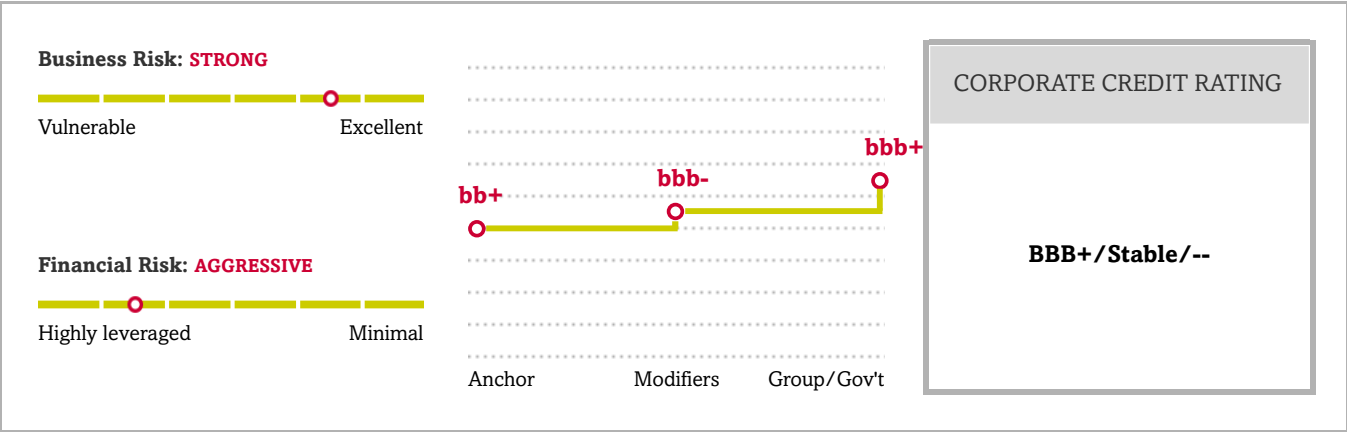
Government Influence

Ratings Score Snapshot

Related Criteria And Research

Summary:

Ontario Power Generation Inc.



Rationale

Business Risk: Strong	Financial Risk: Aggressive
- Ontario Power Generation Inc.'s (OPG) dominant position in a strong market and a diversified economy - Regulatory support for the company's nuclear assets and the bulk of its hydroelectric assets - A diversified portfolio of power-generating assets - Low-cost hydroelectric assets with diversified river systems	- Stable, regulated cash flow - Overall weak cash flow metrics - Large capital programs over next several years

Outlook: Stable

The stable outlook reflects our view of the 'bbb-' stand-alone credit profile (SACP) on Ontario Power Generation Inc. (OPG) and that we do not expect the likelihood of extraordinary government support to change. A one-notch deterioration in either the SACP or our rating on the Province of Ontario would not change our rating on the utility.

Downside scenario

We believe a negative rating action on OPG is unlikely during our two-year outlook period given that both the SACP and our rating on Ontario would have to decline one notch. An unexpected change in our view of the relationship between OPG and the province to "moderately high" or lower could also negatively affect the rating. We could lower the SACP to 'bb+' if we expected a sustained drop in adjusted funds from operations (AFFO) -to-debt below 9%. Given the regulatory support OPG benefits, we view this as unlikely.

Upside scenario

We could take a positive rating action if we expected AFFO-to-debt to be above 13% comfortably and consistently. A one-notch improvement to OPG's SACP, all else being equal with the province, would result in a one-notch upgrade. However, we view this as unlikely during our outlook period given the Ontario regulatory framework and the extent of the company's capital spending program, including the multi-billion Darlington nuclear plant refurbishment.

S&P Global Ratings Base-Case Scenario

OPG is an Ontario-based electricity generation company whose principal business is in electricity generation and sale in the Province of Ontario. OPG supplies about half of the electricity in Ontario and is wholly owned by the province.

Assumptions	Key Metrics								
• OPG will continue to focus on its regulated electricity generation business • The Ontario Energy Board, the provincial regulator, will continue to operate in a transparent, stable, and predictable manner • The utility will not experience any adverse regulatory decisions • OPG filed a five-year rate application for 2017-2021; with regulated nuclear rates under the custom incentive regulation and the regulated hydroelectric rates under the incentive rate making regulation, we expect OPG will get most of its revenue requirements approved • The Darlington refurbishment project will incur no material delays and cost overruns	<table><tr><th></th><th>2015A</th><th>2016E</th><th>2017E</th></tr><tr><td>AFFO/debt (%)</td><td>16.9</td><td>12-14</td><td>13-14</td></tr></table> AFFO--Adjusted funds from operations. A--Actual. E--Estimated.		2015A	2016E	2017E	AFFO/debt (%)	16.9	12-14	13-14
	2015A	2016E	2017E						
AFFO/debt (%)	16.9	12-14	13-14						

Business Risk: Strong

Our assessment of OPG's strong business risk profile reflects the utility's strong market position (which accounted for about 50% of Ontario's electricity generation in 2015) and a supportive regulatory framework. We expect OPG will continue to generate about 95% of its EBITDA from regulated sources, recover prudently incurred fixed and variable cost in a timely manner, and earn a moderate return on capital assets.

In addition, OPG has a diverse portfolio of generation assets comprising four nuclear (including Bruce), 65 hydro-electric, two biomass stations, three thermal stations, and one wind turbine asset; therefore, OPG is not dependent on a single or few generation assets. The hydro-electric assets are subject to hydrology risk; however, this is mitigated by the multiple river systems.

Further supporting the strong business risk profile is that OPG's service territory, the Province of Ontario, has a very strong and diversified economy with modest population growth supporting electricity consumption. However, this is offset by the ongoing demand conservation programs resulting in ratepayers being more cautious about conserving energy and reduces electricity consumption.

Due to the nature of the business, OPG does not deal directly with ratepayers and does not have a large and diverse customer base. OPG's main counterparty is the Independent Electricity System Operator, a Crown corporation, which remits monthly electricity sales revenue to OPG in the subsequent month.

Financial Risk: Aggressive

We assess OPG's financial risk profile as aggressive. For the company, we use the medial volatility table when

assessing the cash flows to reflect the supportive regulatory framework and that virtually all of OPG's cash flows come from the higher end of the utility risk spectrum in electricity generation compared with that of transmission and distribution.

The company has a significant capital program over the next few years of about C\$1.8 billion per year, including the Darlington nuclear facility refurbishment plus additional maintenance capital spending. We believe the high amount of capital spending will pressure the credit metrics. Given the Darlington refurbishment project execution starts in 2016, we forecast AFFO-to-debt of about 12%-14% during our outlook period.

Liquidity: Adequate

OPG's liquidity is considered as adequate in our view. We expect liquidity sources to exceed uses by more than 1.1x over the next 12 months. In the event of a 10% drop in the company's EBITDA, we also expect there are sufficient liquidity sources to cover uses. In our view, the company has sound relationships with banks. In the event of unexpected financial stress, we expect the utility would scale back on its capital expenditures to preserve the credit metrics.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash available of about C\$460 million in 2016 • Cash FFO of about C\$1.45 billion in 2016 • Committed credit facilities availability total of about C\$1.7 billion in 2016, of which about C\$1.0 billion matures in 2021 and C\$700 million matures in December 2017	• Debt maturity of about C\$273 million in 2016 • Capital expenditures of about C\$2.0 billion in 2016

Other Modifiers

We applied a positive comparable rating analysis modifier to OPG to reflect the company's dominant market position in Ontario as it contributes about 50% of the Province of Ontario's power generation. In addition, the company also benefits from a high proportion of regulated cash flow, providing predictability and stability in its electricity generation business. Other modifiers have no impact on the rating.

Government Influence

We believe there is a high likelihood that OPG's owner, the Province of Ontario, would provide timely and sufficient extraordinary support to the company in the event of financial distress. This is based on our assessment of a very strong link and an important role in accordance with our government-related entity criteria. Our assessment further reflects our view that:

- OPG's role to the Province of Ontario is important because it supplies more than 50% of the province's electricity

usage. In addition, OPG provides an essential infrastructure to Ontario and its activities relates to an important public policy role (energy and environmental policies).

- OPG has a very strong link with Province of Ontario because Ontario owns 100% of OPG (strong shareholder) and has a track record of providing support to OPG (through the Ontario Electricity Financial Corporation).

The high likelihood of extraordinary government support provides a two-notch rating enhancement to OPG's 'bbb-' SACP.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/--

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Aggressive

- **Cash flow/Leverage:** Aggressive

Anchor: bb+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb-

- **Likelihood of government support:** High (+2 notches from SACP)

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013

- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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From: [Christina Zhang](#)
To: [Alena Ingram \(MOF\)](#)
Cc: [Gavin He](#); [Bridget Jeanes \(MGS\)](#); [Cho Khong \(MOF\)](#)
Subject: OEFC BP
Date: Wednesday, March 01, 2017 5:16:59 PM
Attachments: [OEFC 2017-20 Business Plan.pdf](#)

Hi Alena,

Please find attached the OEFC 2017-20 Business Plan. The attached have been approved by the OEFC BOD on February 23rd.

We'll send over PDFs of the signed memo and blue sheet on Friday, if that's okay.

Regards,
Christina

Christina Zhang

(A) Executive Assistant and Special Policy Advisor to the CEO
Ontario Financing Authority
416.325.8032



2017-20 BUSINESS PLAN

Approved by the Board of Directors

February 23, 2017

Date

Approved by the Minister of Finance

Signature
The Honourable Charles Sousa
Minister of Finance

Date

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Executive Summary

The Ontario Electricity Financial Corporation (OEFC, or the Corporation) is responsible for the management of the debt and certain other liabilities of the former Ontario Hydro. The OEFC assumed approximately \$38.1 billion in debt and other liabilities of the former Ontario Hydro when it was restructured on April 1, 1999. A portion of the \$38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving \$20.9 billion of “stranded debt” not supported by those assets (and an initial unfunded liability of \$19.4 billion, when taking into account other OEFC assets as at April 1, 1999).

As at March 31, 2016, total debt and liabilities amounted to \$25.1 billion, and OEFC’s unfunded liability was reduced to \$4.4 billion. And, based on the Province’s 2016 Budget projections for OEFC in 2016-17, the OEFC projected excess of revenue over expense of about \$0.6 billion would further reduce the unfunded liability by that amount, which would mean 2016-17 would be the thirteenth consecutive year that the stranded debt has been reduced.

Overview of 2016-17 Results

The Ontario Electricity Financial Corporation (OEFC) accomplished the following key objectives presented in its 2016-19 business plan.

1. Manage debt and other liabilities cost-effectively
 - Continued to manage OEFC’s debt and other liabilities, with debt outstanding of \$23.0 billion as at October 31, 2016.
 - The Corporation’s projected results are for a continued reduction in the unfunded liability in 2016-17, by an estimated \$0.6 billion, even as OEFC has had to manage with reduced revenues from the Debt Retirement Charge (DRC) as the 2016-17 is the first full year of the elimination of the DRC for residential customers.
2. Manage financial risk within approved policy limits
 - Maintained a zero foreign exchange exposure on outstanding debt principal and maintained net interest rate resetting exposure within policy limits.
3. Manage and administer the OEFC power supply and demand management contracts
 - In 2016-17, to the end of October, achieved \$12.8 million in cost-savings through curtailments.
 - Continued to manage and implement a contract with the Independent Electricity System Operator (IESO) in support of its Industrial Electricity Incentive (IEI) demand management program.
 - Supporting an IESO initiative, under which the IESO was complying with a direction from the Minister of Energy, OEFC terminated three and suspended two gas-fired non-utility generator (NUG) power purchase agreements (PPAs). This allowed those NUGs to enter into curtailment agreements with the IESO that provide an incentive to NUGs to operate in a manner that is better aligned with the integrated power system’s needs, reducing OEFC costs, costs to ratepayers, and lowering carbon emissions.

4. Provide financial assistance, as required, to the Ontario Hydro successor corporations
 - Continued to monitor and implement financial assistance from OEFC to Ontario Power Generation (OPG), including a \$700 million credit facility up to December 31, 2017, for the purpose of financing general corporate purposes, including the Darlington refurbishment project. This credit facility is expected to be increased to \$1.5 billion up to December 31, 2017, with further availability thereafter until December 31, 2018.
 - Continued to monitor and provide analysis and advice on the credit facility between the IESO and the OEFC.
5. Support the implementation of the government's electricity industry policies and determine the impact on the OEFC
 - Continuing to support the IEI program.
 - Projections for 2016-17 in Budget 2016 show an excess of revenue over expense of about \$0.6 billion, which would reduce the Corporation's unfunded liability (or stranded debt) to below \$4 billion. This would be the thirteenth consecutive annual decline in the unfunded liability.
 - Provided support for the implementation of the government's policy on broadening Hydro One ownership, including the dedication of proceeds related to the book value of shares sold towards paying down the Province's electricity sector debt and other payables with OEFC and financial benefits provided by the Province to OEFC as per section 50.3 of the *Electricity Act, 1998*.

Key Objectives for 2017-2020, consistent with its mandate letter from the Minister of Finance, include the following:

- Manage debt and other liabilities cost-effectively.
- Manage financial risk within approved policy limits.
- Manage and administer the non-utility generator (NUG) contracts and demand management contracts.
- Manage and administer a contract with IESO in support of its Industrial Electricity Incentive (IEI) demand management program.
- Provide financial assistance, as required, to the Ontario Hydro successor corporations.
- Support the implementation of the government's electricity industry policies and determine the impact on the OEFC.

Governing Legislation and Mandate

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): Ontario Power Generation Inc. (OPG), Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and the OEFC.

Pursuant to the Act, the OEFC's mandate includes the following:

- Managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro.
- Managing the former Ontario Hydro's NUG contracts.

- Receiving all payments and administering other assets, liabilities, rights and obligations of the former Ontario Hydro 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 and a distributor owned or controlled, directly or indirectly, by Her majesty the Queen in Right of Ontario and licensed by the Ontario Energy Board.
- Entering into financial and other agreements relating to electricity supply or management of electricity demand, in Ontario.
- Performing any additional objects as specified by the Lieutenant Governor in Council.

Strategic Directions and Performance Measures

1. Manage Debt and Other Liabilities Cost-Effectively

Objective	Performance Measure	Targets
Manage financing requirements in a sound and efficient manner. The OEFC manages the debt and liabilities of the former Ontario Hydro, with total debt of \$24.3 billion as at March 31, 2016. The 2017-18 Financing, Debt and Electricity Management Plan for the Province and the OEFC will detail strategies and operational objectives on how the OEFC will manage its debt portfolio. The plan will reflect considerations such as investor demand, market structure, interest rate outlooks, OEFC cash flows and debt maturity constraints.	For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. Performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The OEFC has existing long-term debt maturities totalling \$2.1 billion, \$0.7 billion, and \$1.4 billion in 2017-18, 2018-19 and 2019-20 respectively. The requirement for refinancings or new borrowings will take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One, as well as any loan requirements from OPG. The strategy for OEFC's borrowing requirement will be presented in the 2017-18 Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by Internal Audit Division.
Working with OPG and Hydro One to effectively manage claims against OEFC and Hydro One or OPG relating to the former Ontario Hydro's federal permits and related facilities on First Nation Reserves ("Permit Claims"). (Hydro One and OPG maintain most of these facilities; however, in some cases, legal title remains in OEFC as the continuation of Ontario Hydro.)	Permit Claims are defended or settled without liability to OEFC. OEFC is released from liability relating to Permit Claims.	OEFC is not required to make any payments under any judgement or settlement of a Permit Claim. All settlements of Permit Claims by Hydro One/OPG also include a release of OEFC.

2. Manage Financial Risk within Approved Policy Limits

Objective	Performance Measure	Targets
Manage the debt portfolio within exposure policy limits. Exposures are expected to remain within policy limits throughout 2016-19.	The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.
Setting risk management policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for Market Risk, Credit Risk, Use of Derivatives and Other Financial Instruments, and Risk Management Reporting are regularly reviewed and updated annually. Interest and FX rate exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Objective	Performance Measure	Targets
Minimize NUG costs to ratepayers by utilizing arrangements such as curtailment or incremental power transactions.	The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.
Negotiate any necessary revisions to the NUG contracts.	Successful negotiation of revisions to the contracts necessary to ensure that the contracts are consistent with the current electricity market environment and government policy. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy.
Provide effective administration of NUG power purchase agreements (PPAs).	Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee the performance of the meter service provider under contract to OEFC, to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing contract terms, electricity market rules and standards.	Maintain and improve operational systems, applications and infrastructure as required. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Provide operational and market settlement information and advice in support of legal proceedings, renegotiation of contracts and energy curtailments as required.

Objective	Performance Measure	Targets
Administer the OEFC's obligations to provide the IESO support for its DRC offset payments made under the IEI demand management program.	Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Objective	Performance Measure	Targets
Facilitate the cash flow requirements of the successor corporations.	Review and analyze requests from successor companies to ease cash flow constraints. Review and analyze requests from OPG to provide flexibility in debt term structure.	Provide and monitor credit facilities to OPG and IESO, as needed, for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required, including greater access to 30-year borrowing for OPG.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Objective	Performance Measure	Targets
Monitor the financial performance of the successor electricity corporations. Monitor, review and respond to developments and/or government policy initiatives in the electricity sector.	Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the DRC, payments in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and continue to monitor and analyze Hydro One's financial results. Meet operational requirements on a timely basis to implement the government's policy initiatives. Provide analysis and advice on the financial impacts on OEFC from broadening ownership of Hydro One.

Objective	Performance Measure	Targets
Timely and accurate financial reporting.	Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Continue to review the long-term OEFC model.
Implement Directives from the Minister of Finance.	Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.

Risk Identification, Assessment and Mitigation Strategies

Risk Category: STRATEGIC				
RISK AREA: Strategic/ Policy/ Performance Risk: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with OPS policies). The risk that strategies and policies fail to achieve required/ targeted results. The risk of not providing value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence / Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Electricity Policy Changes	Government policy changes that could result in additional responsibilities for the OEFC, or have a net impact on OEFC through changes in cash flows or dedicated revenues to OEFC.	Medium / Medium	Medium	Monitor, assess and respond to developments in support of the government's electricity plan. Corporate and Electricity Finance Division (CEFD) provides financial, fiscal impact and policy analysis and advice to the Deputy Minister and Minister of Finance on the electricity sector, including the fiscal impacts on the Province of proposed government policies. CEFD staff also provide on-going financial and fiscal impact analysis to other divisions in the Ministry of Finance and TBS, including OTB, OPCD, OB, OEP, TPD, and CQSD. CEFD and OFA staff support the OEFC by providing financial analysis and advice to the Deputy and Minister to inform government's policy making process, including advice on fiscal impacts from the impact on OEFC and pay down of the stranded debt and potential cost recovery from the rate base.
Strategic Planning (Annual Business Plan)	Strategies and policies fail to achieve required results.	Low/Medium	Medium	A three-year OEFC business plan is approved by the Minister of Finance and OEFC's Board of Directors. Quarterly progress reports are provided to the OEFC's Board and reporting on the achievement of strategic objectives for the previous fiscal year is included in the business plan.

				OEFC monitors the electricity sector environment and provides analysis and advice on policy options which could directly or indirectly have an impact on OEFC and relevant stakeholders. The Ministry of Finance will be consulted before any change is made to OEFC's strategic direction or programs that require ministry and/or TB/MBC approval. The Financing, Debt and Electricity Management Plan for OEFC is developed based on in-depth research and analysis and is adjusted throughout the year as conditions change. The Audit Committee (AC) of the Board works with Ontario Internal Audit Division to ensure that the annual OEFC audit plan allows for the auditors to assist with program design and provides for audits of any high risk aspects of programs.
Meeting Stakeholder Expectations	The risk that OEFC may fail to meet stakeholder expectations, including those of the Province and other public bodies.	Low/Medium	Medium	OEFC manages the former Ontario Hydro's debt and administers the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities, including the Non-Utility Generator contracts, and provides financial assistance to the successor corporations of Ontario Hydro. OEFC is available to meet with any OEFC electricity contract counterparty as required. OEFC senior management maintains regular and frequent contact with the Deputy Minister's Office, the Deputy Minister of Energy and the OEFC Board. This is complemented through quarterly board meetings chaired by the Deputy Minister of Finance and annual reporting to the Minister of Finance through the Business Plan and the Annual Report. OEFC's reporting to external stakeholders is through posting on its website the Business Plan and publishing the Annual Report, and its annual financial statements are included in the Public Accounts of the Province. The OEFC also maintains and updates a website accessible to external stakeholders.

Financial Market Risk	Higher-than-forecast interest rates resulting in higher annual financing charges.	Low/Medium	Low	Manage net interest rate resetting exposure. Diversify the borrowing program by managing its pace and the debt maturity profile. The broadening of ownership of Hydro One has resulted in a significant cash inflow to OEFC to date and as projected. As such OEFC is projected not to engage in borrowing to fund maturing debt in 2016-17 and most likely in the two out years.
Credit Risk	The risk that counterparty defaults on its obligations arising from financial and derivative transactions.	Low/Medium	Low	Reduce exposure to external counterparties with a credit rating of single-A, and lower by using standard credit mitigation techniques, including the possible execution of collateral agreements, re-couponing and terminations. Entities with high potential exposures relative to credit limits will be used sparingly when initiating new swaps. The OEFC's exposure to external counterparties is minimal and will no longer exist post 2016-17 when all derivate contracts with all external counterparties expire.
Dedicated Revenues of the Electricity Sector to OEFC	The amount of dedicated revenues to OEFC affect stranded debt pay down.	Medium/Medium	Medium	OFA/CEFD staff receive and review OPG business plans and monthly financial updates and Hydro One's publicly available financial information and provide projections and analysis, as well as potential options, to the government and OEFC. Monitor and assess the impacts of Hydro One rate applications and decisions, and public financial reporting information. Monitor MEU PILs cash flows and MEU financial statements. OFA jointly manages the nuclear funds. Diversify the nuclear funds investment portfolio globally using a variety of fund managers in different sectors.

Risk Category: ACCOUNTABILITY/GOVERNANCE

RISK AREA: Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, MOU or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Meeting statutory requirements	Risk of non-compliance with statutory requirements	Low/Medium	Low	MOF/OFA Legal Branches, as applicable, advise of statutory changes affecting OEFC operations and key directives are distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO. Non-compliance with applicable laws or regulations would also be reported to the Board quarterly (or sooner, depending on the severity). CEO/Board direct remedial action (which may include training). Ministry/MGS HR personnel would advise on any disciplinary action.
Reliability of financial systems	The risk that the OEFC's financial information and reporting system (through the OFA) is not reliable or fails to meet quality standards.	Low/Low	Low	The OEFC has well-established processes and procedures for monitoring and reporting on its financial performance to its Audit Committee, Board of Directors and to the Ministry. OEFC financials are prepared on a quarterly basis for discussion and approval by the OEFC Audit Committee and Board of Directors. Changes to accounting pronouncements are also addressed during the quarterly discussions. Annual budgets and audited financials are submitted to the ministry as per TBS requirements. Internal controls and financial systems are assessed by both the staff of the Office of the Auditor General and the Province's Internal Audit Division on an annual basis. So far no material issues have been identified.
First Nations Litigation	OEFC, as a legal successor to Ontario Hydro, is at risk of being named in First Nations lawsuits.	Low/Medium	Medium	OEFC is indemnified by OPG and/or Hydro One for any liability in relation to the matters raised in these lawsuits.

NUG litigation	OEFC, as a legal successor to Ontario Hydro, is party to lawsuits by non-utility generators (NUGs) relating to their power purchase agreements (PPAs) originally entered into with Ontario Hydro.	High/Low	Medium	OEFC administers these claims based on appropriate legal advice. The risk is reduced as PPAs expire/terminate. The impact on OEFC is mitigated by legislative amendments in 2005, under which OEFC fully recovers its NUG contract costs through the Global Adjustment. Any costs paid by OEFC are passed through to consumers through the Global Adjustment.

Risk Category: OPERATIONAL				
RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Operational Risk	Risk of not effecting settlement of electricity transactions and payments to the NUGs, or other contract counterparties, conducted by the OEFC since January 1, 2005.	Low/Low	Low	Systems, procedures and controls have been in place and continuously improved since inception and staff are adequately trained, with no significant issues.

Risk Category: WORKFORCE				
RISK AREA: Workforce: Operational Workforce Risks				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Collective Agreements/ Worker Compensation/ Salary Settlement Costs	Retention of key skill sets and staff for the roles and competencies they provide to OEFC. Without a unique compensation plan, with base compensation established to ensure retention of key skill sets for Capital Markets and certain Risk Control staff, the OFA would be severely limited in its ability to retain existing staff and would face a near impossible task of attracting external qualified candidates.	Low/High	Medium	Work to achieve and/or maintain the ability, or utilise the available scope, to compensate staff fairly and in comparison to competitors to limit turnover, and in accordance with applicable legislation or compensation directives.

	Compensation for most other OFA positions supporting OEFC are tied to the OPS Management Compensation Plan, which may limit the OFA's ability to attract and retain staff with the required skill sets.			

Risk Category: INFORMATION TECHNOLOGY AND INFRASTRUCTURE

RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Privacy and security	Does the agency handle sensitive/confidential information on behalf of the government? How does the agency reduce the potential compromise of personal data through	Low/Medium	Low	Access to all electronic data requires some form of authentication. Security of electronic and hard copy information is provided by key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a yearly basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply.

	identity theft, or unauthorized electronic or physical access of information?			OFA Trading Restrictions and Disclosure Requirements Policy is provided to OFA staff, along with any additional direction as required (e.g., Hydro One transactions).
Business continuity	What are the processes in place to ensure that critical I&IT systems are available for operation to support business requirements (disaster recovery & business continuity planning)?	Low/Low	Low	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's disaster recovery (DR) site. Critical production systems are routinely run out of the DR site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes remote equipment, remote access services and mobile telephones. Internal Audit Division is conducting an audit of the OFA BCP.

Risk Category: OTHER

RISK AREA: Other Risk: Risk that does not fit in any of the above categories. Corporate Social Responsibility concerns – Environment, Climate Change, Energy Management, Health Promotion, Waste Reduction, Fair Trade practices. Organizational Assets – Facilities and Equipment, Personal Safety, Physical Security. Issues relating to third parties that are involved with the agency such as service or goods providers.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy

Additional risks	How does the agency ensure that consideration of financial risk is an ongoing exercise within the agency; i.e., the potential costs of relationships with third party service providers or suppliers?	Low/Low	Low	As part of procuring service providers and supplies, the OFA's procurement policy requires identification of the cost of the contract over the term, including renewals and consideration of other options.

Environmental Scan: Assessment of Issues Facing the OEFC

Factors that could affect OEFC meeting financial projections or core corporate objectives are described below.

External Factors

- The financial performances of OPG and Hydro One affect OEFC revenues relating to
 - i) the electricity sector dedicated income from the Province, which is the Province's combined net income from OPG and Hydro One in excess of the Province's interest costs of its investment in its electricity subsidiaries, and
 - ii) OPG payments in lieu of taxes (PILs) to the OEFC, and payments to OEFC in respect of Hydro One Inc. provincial corporate income taxes.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through MEU PILs to the OEFC.
- The Ontario Energy Board's (OEB) decisions on regulated rates, including the allowed return on equity, may affect projected OPG and Hydro One's financial performance and MEU PILs.
- Additional financial assistance to OPG may be required in the future, including debt maturity refinancing and new loans.
- The Province's progress in broadening Hydro One ownership will affect the OEFC's dedicated income from the Province related to Hydro One. The dedication of certain proceeds from Hydro One share offerings may affect OEFC's cash flows, refinancing requirements and debt interest costs.

Economic conditions and electricity demand:

- Economic conditions, industrial activity, and higher/lower electricity demand have an impact on the OEFC through net incomes of OPG, Brampton Distribution Holdco Inc. and Hydro One, Hydro One provincial CIT, OPG and MEU PILs, and Debt Retirement Charge (DRC) revenue. An economic downturn/recovery would tend to decrease/increase electricity demand.
- Electricity demand lower than projections in regulatory filings could result in lower revenues for OPG, Hydro One and MEUs in the absence of recovery through variance accounts. In addition, lower demand could trigger curtailments for hydroelectric and nuclear production, potentially resulting in a negative financial impact to OPG if these costs are non-recoverable in rates.
- Lower electricity consumption also results in lower DRC revenues.
- Economic conditions may affect pension costs for OPG and Hydro One. Any pension costs not recovered through electricity rates or deviating from forecasts without recovery through variance accounts would lead to reductions in earnings of OPG and Hydro One.

Financial markets:

- Soft inflation and slowing growth led the Bank of Canada to cut the target overnight rate by 50 basis points in 2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.
- In the United States, the Federal Reserve raised rates for the first time since 2006 at its December 2015 meeting, and again on December 14, 2016, citing a solid labour market and expectations for inflation to rise, in the medium-term, towards its 2 per cent target as reasons for the hike. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, the European Central Bank in January 2017 announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time."
- According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018..
- The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Changes to the government policy environment can affect OEFC revenues and expenses:

- Changes in corporate tax rates would affect OEFC's current and projected future payments-in-lieu of tax revenues to OEFC from OPG and MEUs and current and projected future payments of Hydro One provincial corporate income tax allocated by the Province.
- The government has acted on the Premier's Advisory Council on Government Assets' recommendation of broadening Hydro One's ownership with an initial public offering of approximately 15 per cent as well as a secondary offering of an additional 14 per cent of shares with plans to undertake subsequent share sales over time, totalling up to 60 per cent of voting securities in Hydro One.
- The government is moving forward with a merger of Hydro One Brampton through a sale to Alectra, a newly merged entity of three urban local distribution companies to contribute to and encourage consolidation in the distribution sector.
- Hydro One has gone forward with acquisitions in the local distribution sector:
 - On August 15, 2016, an agreement was reached for Hydro One to acquire Orillia Power Distribution Corporation from the City of Orillia, Ontario.
- Hydro One Limited announced on October 31, 2016, that its wholly-owned subsidiary Hydro One Inc. completed the purchase of Great Lakes Power Transmission LP, following approval of the transaction by the Ontario Energy Board on October 13, 2016.
- Government policy and implementation in moving forward with these plans could affect OEFC's current and projected revenue streams from the Province, Hydro One and MEUs, and affect OEFC's expenses.

- The Province's plan to broaden ownership of Hydro One affects OEFC revenues and expenses relating to
 - i) the electricity sector dedicated income from the Province, as
 - a) a decrease in Provincial ownership will reduce the Province's share of Hydro One net income, and
 - b) the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will reduce the Province's interest payments to OEFC related to its investment in Hydro One, and
 - ii) the financial benefit as per section 50.3 of the *Electricity Act, 1998* related to the sale of Hydro One shares.
 - iii) interest on debt, as the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will provide OEFC with cash inflows that help reduce borrowing requirements.
- Acquisitions by Hydro One would move the income related to those entities out of the PILs regime, reducing OEFC PILs. Such acquisitions may also increase Hydro One net income, which could increase ESDI to OEFC.
- Government policy that would affect electricity load, up or down, with an increase or decrease in DRC revenue, up to the legislated end date of April 1, 2018, from commercial, industrial and other electricity users, offset by any expense to support load management.

Resources

OEFC has no employees. Since April 1, 1999, pursuant to a directive from the Minister of Finance, the OFA has conducted borrowing and related debt and risk management activities, cash management, banking, accounting, financial reporting, forecasting and other related activities on a cost-recovery basis for the OEFC.

Many OFA staff perform OEFC-related functions; for efficiency reasons, these staff are integrated with OFA business units. The costs of twenty full-time equivalents (FTEs) and associated overhead are fully recovered from the OEFC. OFA positions are generally excluded from collective bargaining as the OFA performs borrowing and investing on behalf of the Province, including the OEFC.

In accordance with a Memorandum of Understanding (MOU) between the OEFC and the Ministry of Finance, an agreed number of FTEs has been allocated to the Ministry of Finance to provide revenue collection and reporting services. Costs of these positions are fully recoverable from the OEFC.

The OFA works closely with the Ministry of Finance's human resources branch to implement and maintain the government's human resource strategies, policies and practices.

Financial Statements and Budget

Proposed Operating Expenditures, Projected Revenues & Funding Requirements

The OEFC is an operational enterprise agency of the Province. It has a legislated requirement to issue audited financial statements for the fiscal year, which are approved by its Board of Directors and to submit these to the Minister of Finance within 90 days after the end of every fiscal year. The financial statements summarize the OEFC's revenues and expenditures and are tabled in the Legislature once approved by the Minister of Finance. The statements are also included in the Public Accounts of Ontario. The financial results of the OEFC are consolidated with those of the Province for Public Accounts and Budget purposes.

The business plan shows the operational costs of the OEFC. The following budget table provides the projected cost of functions performed by the OFA and the Ministry of Finance to be recovered from the OEFC. The OEFC does not undertake any capital expenditures.

	Actual	Interim	Budget		
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Salaries	2,182,877	2,226,534	2,271,065	2,316,486	2,362,816
Benefits	297,665	303,618	309,691	315,885	322,202
	2,480,542	2,530,152	2,580,756	2,632,371	2,685,018
Debt Management Costs	542,909	553,860	564,937	576,236	587,761
Direct Operating Expenses	660,072	673,274	686,739	700,474	714,484
Total OFA Cost Recoveries	\$3,683,523	\$3,757,286	\$3,832,432	\$3,909,081	\$3,987,263
MOF Chargeback for PILS and DRC Audit and Administration Costs	1,800,000	1,800,000	1,800,000	1,900,000	1,900,000
Total Cost Recoveries charged to OEFC	\$5,483,523	\$5,557,286	\$5,632,432	\$5,809,081	\$5,887,263

OFA cost recoveries including debt management costs are in accordance with the MOU between the OEFC and the OFA. Staffing and other out-of-pocket costs expended on the administration, audit and collection of the PILs and the DRC, are recovered by the Ministry of Finance on a quarterly basis in accordance with the respective MOU.

Initiatives Involving Third Parties

OEFC manages and administers electricity contracts with Non-Utility Generators. In its management of these contracts, OEFC may consult with the provincial government and the Independent Electricity System Operator (IESO), and retain external consultants.

OEFC provides the IESO support for its DRC offset payments made under the Industrial Electricity Incentive (IEI) demand management program.

There are no other third parties, other than the provincial government and its agencies, with which the OEFC is partnering or with which it has a funding relationship for the purpose of delivering OEFC programs. Moreover, the OEFC does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

Implementation Plan

For 2017–20, the OEFC intends to implement its business plan using existing resources.

Communications Plan

OEFC updates, including annual reports, bulletins, information for Ontario Hydro bondholders and electricity sector updates can be found on www.oefc.on.ca. Annual financial statements are also available in Volume 2 of the Public Accounts of Ontario. Financial and borrowing updates can be found in the Provincial Budget, the Economic Outlook and Fiscal Review, Ontario's Quarterly Finances and the OFA Bulletin.

The OFA also responds to inquiries from investors about bonds issued by the former Ontario Hydro, as well as inquiries from the public regarding the OEFC and its responsibilities.

Appendix A – Overview of 2016-17 Results

1. Manage Debt and Other Liabilities Cost-Effectively

Performance Measures	Targets	Results
For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The requirement for refinancings or new borrowings to take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One. The borrowing strategy for OEFC will be presented in the Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. (All results are validated by Internal Audit Division.)	There is no borrowing planned for OEFC in the 2016-17 fiscal year. As of January 16, 2017, there has been no borrowing for OEFC.
OEFC works with Hydro One to determine an effective strategy for transfers in cases where new permits are not being issued by the federal government due to backlogs. Meeting this objective is not completely within OEFC's control.	OEFC and Hydro One develop options for transfers where the federal government is not issuing new permits	Decision was made to specifically address in OEFC's agreements with First Nations, the possibility of new permits not being issued.

2. Manage Financial Risk within Approved Policy Limits

Performance Measures	Targets	Results
The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.	As at November 30, 2016: - foreign exchange exposure was 0.03 per cent of outstanding debt; - net interest rate resetting exposure was 4.2 per cent of outstanding debt; - there was no breach of the IOD loss limit or counterparty default; and - all credit exposures were within approved limits.
Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments, and risk management reporting are regularly reviewed and updated. Exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.	Revisions to the OEFC's Credit Risk Policy were approved by the OEFC Board of Directors on April 15, 2016. Revisions to the OEFC's Policy on the Use of Derivatives and Other Financial Instruments, and Risk Management Reporting Policy were approved by the OEFC Board of Directors on September 23, 2016. Revisions to the OEFC's Market Risk Policy were approved by the OEFC Board of Directors on December 16, 2016. NIRRE and FX exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures and results are reported to the BSC.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Performance Measures	Targets	Results
The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment, incremental power and other arrangements with the NUGs while protecting the interests of the ratepayers.	From April 1, 2016 to October 31, 2016, savings from curtailments totalled \$12.8 million. Worked with IESO in coordinating curtailments in response to surplus baseload generation.
Successful negotiation of any necessary revisions to the contracts. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy. Respond to requests, where provided for in the PPA, from NUGs for contract extensions. Accurate and timely provision of information and analysis required by external legal counsel to represent OEFC in NUG litigation.	Ongoing monitoring and assessment of electricity market conditions with a view to identifying implications for NUG contract management and outstanding litigation. Ongoing management of NUG contract issues by evaluating contract change requests including requests for financial support and for contract extensions with a view to minimizing ratepayer impact. Support for NUG litigation including development of any required analysis. In particular, staff provided support for a lawsuit related to a change by the Ministry of Energy in the allocation of the Global Adjustment. Based on support from IESO, to support its initiative, as directed by the Minister of Energy, OEFC entered into an agreement to curtail a natural gas-fired NUG for most of the month of December. IESO verified that the curtailment payment is on substantially the same basis as longer term curtailments being discussed, and it provided support for the OEFC curtailment as it would help facilitate ratepayer savings that will be generated under the longer term agreement being negotiated by IESO. OEFC has also terminated three and suspended two gas-fired NUG PPAs to allow for those NUGs to enter into curtailment agreements with the IESO that provide them an incentive to operate in a manner that is better aligned with the integrated power system's needs, reducing costs to

Performance Measures	Targets	Results
		ratepayers and lowering carbon emissions.
Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee meter service provider performance to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing market rules and standards.	Implement and maintain all required operational systems and infrastructure. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Negotiate amendments to existing PPAs and incremental power purchase transactions as required.	PPAs continued to be managed effectively with energy payments settled accurately and on a timely basis. Received a clean opinion by Ontario Internal Audit from its bi-annual audit of NUG contract administration. Replacement of meters with 2016 seal expiries and installations of new TCP/IP communication protocols have been completed as scheduled. Completed the metering asset transfers and IESO settlement deregistrations for West Windsor Power and TransAlta Windsor upon its PPA termination. Timely updates to the PPA rates and adjustment payments to the NUGs reflecting various index changes. In compliance with the court order for the GA lawsuit settlement, reviewed revisions to the TMC/DCR new escalation indices and calculated, as well as, verified all the 2011-2015 retro-rate adjustments and payments totalling about \$181 million. Continued to provide inputs and energy settlement calculations for contract negotiations and preparations of affidavits & facts for various legal proceedings as required.

Performance Measures	Targets	Results
Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.	Invoices were received and all payments were settled in a timely manner.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Performance Measures	Targets	Results
Review and analyze requests from successor companies to ease cash flow constraints.	If necessary, provide additional credit facilities to OPG for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required.	Monitored and provided analysis and advice on OPG's liquidity, borrowing program and credit rating. Monitored a \$700 million credit facility with OEFC to provide financing for OPG's equity contribution to the Lower Mattagami project. The facility expired June 30, 2016, with no draws. Provided analysis and advice on and monitored OPG's external financing activities (commercial paper, public market project financing). Monitored a credit facility to OPG of up to \$800 million for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project, up to December 31, 2016. A new credit facility of \$700 million with OPG was put in place for 2017, with the agreement being amended to increase the credit facility to \$1.5 billion up to December 31, 2017 and \$2.35 billion thereafter until December 31, 2018. Monitoring a \$90 million loan refinancing and a \$95 million credit facility extension to the IESO, both

Performance Measures	Targets	Results
		expiring April 30, 2017, to provide the IESO with flexibility to meet financing and liquidity requirements.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Performance Measure	Targets	Results
Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the debt retirement charge (DRC), payment in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and analyze publicly available information from Hydro One. Meet operational requirements on a timely basis to implement the government's policy initiatives.	Monitored and analyzed OPG and Hydro One financial results. Monitored and provided analysis and advice on the fiscal impacts of OPG business plan's projections, as well as OPG and Hydro One publicly available financial information and rate application submissions to / decisions of the Ontario Energy Board (OEB), including monitoring of regulatory proceedings. Provided periodic electricity sector outlook and fiscal updates with respect to OEFC to various divisions within the Ministry of Finance and Treasury Board Secretariat, including for the Budget, Public Accounts and Fall Economic Statement. Provided analysis, advice, and implementation support regarding the financial impacts on OEFC from broadening Hydro One ownership, including financial benefits under section 50.3 of the <i>Electricity Act, 1998</i> and the Province's commitment to dedicating proceeds related to the book value of shares sold to OEFC. Prepared submission packages for statutory appropriation expense item for Hydro One provincial corporate income tax payable to the OEFC, as provided for under section 91.2 of the <i>Electricity Act, 1998</i>
Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections to the Auditor General for review and audit committee and Board for approval.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Perform annual update of the long-term defeasance model.	Completed 2015-16 audited financial statements and annual report, and interim quarterly financial statements for 2016-17. Provided OEFC financial information for 2015-16 Public Accounts. Prepared 2017-18 OEFC PRRT (Program Review, Renewal, and Transformation) submission and updated forecast for the 2016 Fall Economic Statement. Reviewed and updated the long-term OEFC model, including analysis of electricity sector policy scenarios.

Performance Measure	Targets	Results
Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.	Implemented a Minister of Finance Directive to OEFC to provide a credit facility to OPG for 2017 for general corporate requirements, including the Darlington Refurbishment Project. Continued to implement past, active Directives.

Appendix B –Corporate Structure and Accountability

Governing Legislation

Pursuant to the *Electricity Act, 1998* (the Act), OEFC is the legal continuation of Ontario Hydro and is a corporation without share capital. Its legislative mandate is set out in the Act. The Act provides for the appointment by the Lieutenant Governor in Council of a Board of Directors to supervise the management of the OEFC. The Act provides that the CEO is appointed by the Lieutenant Governor in Council, on the recommendation of the Minister of Finance. The CEO is responsible for managing the day to day operations of the OEFC.

Agency Classification

The Act provides that the OEFC is an agent of the Crown. It is classified as a “Board Governed Agency” agency pursuant to Management Board’s Agencies and Appointments Directive.

Minister of Finance

The Minister of Finance is responsible to the Legislature for the fulfilment of the OEFC’s mandate and reporting on the affairs of the OEFC, including tabling of the annual report in the Legislature. The Minister approves the OEFC’s annual business plan, which may also be reviewed at any time at the request of the Minister or Management Board of Cabinet (MBC).

In accordance with MBC requirements, the Minister enters into or affirms a Memorandum of Understanding (MOU) with the OEFC which sets out the OEFC’s mandate and the roles and responsibilities of senior management, including the Chair, Board of Directors and CEO. The MOU also sets out financial and other reporting responsibilities of the OEFC to the Minister. The Minister recommends the approval of the MOU by MBC.

Deputy Minister and Chair

The Deputy Minister of Finance advises the Minister of major issues or developments involving OEFC. Generally, the Deputy Minister is also appointed as Chair of the OEFC. As Chair, he or she provides leadership and direction to the OEFC Board and is responsible for developing the MOU with the Minister and for submitting the annual business plan, including budget, to the Minister.

Corporate Governance

Board of Directors

The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. In accordance with the OEFC's MOU with the Minister of Finance, the OEFC Board performs a supervisory role. It oversees the management of the OEFC and helps to ensure that the OEFC's mandate, as determined by the Province, is implemented. The Board is currently comprised of current and former public servants.

The Board fulfills its responsibilities through regular meetings of its Audit Committee and meetings of the full Board, receipt of regular reports from management and approval of the OEFC's financial risk policies as well as its internal audit plan, annual business plan and annual report. The Board receives quarterly reports from management regarding OEFC's compliance with applicable laws, directives and policies. The Board may enact by-laws for the OEFC, which must be approved by the Minister of Finance. The Board meets at least once quarterly.

OEFC is required to provide its annual report to the Minister of Finance within 90 days of the fiscal year end, or, if extended by the Minister, by the day on which the Public Accounts of Ontario are released. The annual report is tabled in the Legislature. The OEFC financial statements are included in the Public Accounts of Ontario.

Audit Committee

The Audit Committee supports the Board of Directors. It reviews the OEFC's financial statements and recommends them to the Board of Directors. It also approves the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls. Another function of the Audit Committee is to receive regular reports regarding OEFC's compliance with legal and regulatory requirements and applicable government directives and policies.

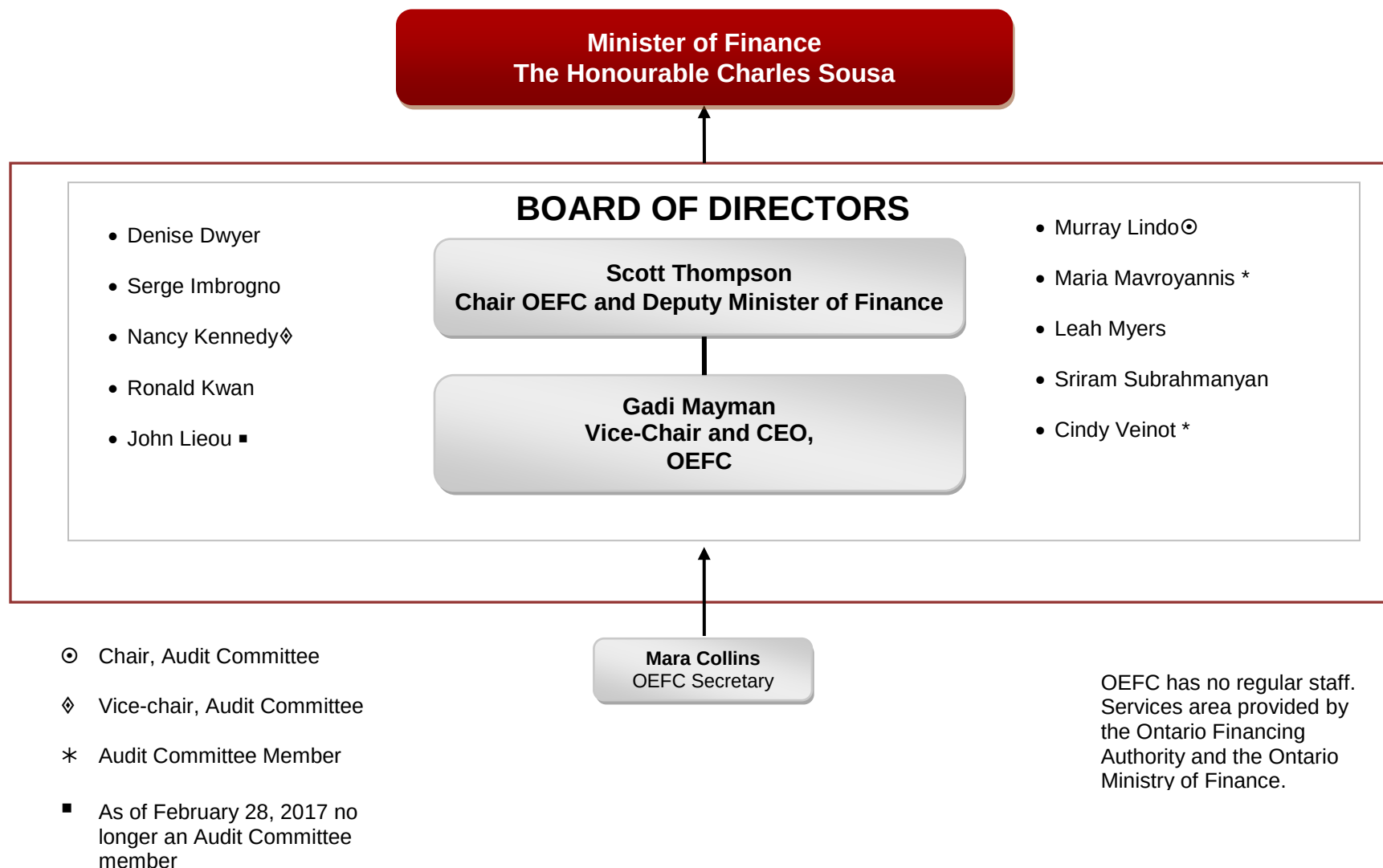
Chief Executive Officer (CEO)

The CEO is accountable to the Board for managing the day to day operations of the OEFC in accordance with its annual business plan, the OEFC's by-laws, Board-approved policies, and applicable ministerial and government directives. The CEO reports at each quarterly board meeting regarding the operations of the OEFC. The CEO also reports to the Chair concerning the OEFC.

Employees

The OEFC does not have any employees, although some OFA staff members are designated as officers of the OEFC for the purpose of executing agreements and other documents on its behalf. The OFA and staff in the Ministry of Finance carry out the OEFC's day to day operations under the supervision of the CEO and the OEFC Board.

Ontario Electricity Financial Corporation (OEFC) Organization Chart



From: [Christina Zhang](#)
To: [Gadi Mayman](#)
Subject: OEFC Business Plan
Date: Wednesday, March 01, 2017 10:40:22 AM
Attachments: [OEFC 2017-20 Business Plan Draft_2017 02 15_OFA CEFD_v4_Markup.docx](#)

Hi Gadi,

Not sure if you wanted to review before it is sent to the Ministry. Attached is the revised OEFC Business Plan, as per the Board's direction, which includes adding to the Executive Summary OEFC achievements in paying-down debt, NUG curtailments and elimination of the DRC. The attached has been approved the Ron.

Thanks,
Christina



2017-20 BUSINESS PLAN

Approved by the Board of Directors

Date

Approved by the Minister of Finance

Signature
The Honourable Charles Sousa
Minister of Finance

Date

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Executive Summary

The Ontario Electricity Financial Corporation (OEFEC, or the Corporation) is responsible for the management of the debt and certain other liabilities of the former Ontario Hydro. The OEFEC assumed approximately \$38.1 billion in debt and other liabilities of the former Ontario Hydro when it was restructured on April 1, 1999. A portion of the \$38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving \$20.9 billion of "stranded debt" not supported by those assets (and an initial unfunded liability of \$19.4 billion, when taking into account other OEFEC assets as at April 1, 1999).

As at March 31, 2016, total debt and liabilities amounted to \$25.1 billion, and OEFEC's unfunded liability was reduced to \$4.4 billion. And, based on the Province's 2016 Budget projections for OEFEC in 2016-17, the OEFEC projected excess of revenue over expense of about \$0.6 billion would further reduce the unfunded liability by that amount, which would mean 2016-17 would be the thirteenth consecutive year that the stranded debt has been reduced.

Overview of 2016-17 Results

The Ontario Electricity Financial Corporation (OEFEC) accomplished the following key objectives presented in its 2016-19 business plan.

1. Manage debt and other liabilities cost-effectively
 - Continued to manage OEFEC's debt and other liabilities, with debt outstanding of \$23.0 billion as at October 31, 2016.
 - The Corporation's projected results are for a continued reduction in the unfunded liability in 2016-17, by an estimated \$0.6 billion, even as OEFEC has had to manage with reduced revenues from the Debt Retirement Charge (DRC) as the 2016-17 is the first full year of the elimination of the DRC for residential customers.
2. Manage financial risk within approved policy limits
 - Maintained a zero foreign exchange exposure on outstanding debt principal and maintained net interest rate resetting exposure within policy limits.
3. Manage and administer the OEFEC power supply and demand management contracts
 - In 2016-17, to the end of October, achieved \$12.8 million in cost-savings through curtailments.
 - Continued to manage and implement a contract with the Independent Electricity System Operator (IESO) in support of its Industrial Electricity Incentive (IEI) demand management program.
 - Supporting an IESO initiative, under which the IESO was complying with a direction from the Minister of Energy, OEFEC terminated three and suspended two gas-fired non-utility generator (NUG) power purchase agreements (PPAs). This allowed those NUGs to enter into curtailment agreements with the IESO that provide an incentive to NUGs to operate in a manner that is better aligned with the integrated power system's needs, reducing OEFEC costs, costs to ratepayers, and lowering carbon emissions.
4. Provide financial assistance, as required, to the Ontario Hydro successor corporations

- Continued to monitor and implement financial assistance from OEFC to Ontario Power Generation (OPG), including a \$700 million credit facility up to December 31, 2017, for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project. This credit facility is expected to be increased to \$1.5 billion up to December 31, 2017, with further availability thereafter until December 31, 2018.
 - Continued to monitor and provide analysis and advice on the credit facility between the IESO and the OEFC.
5. Support the implementation of the government's electricity industry policies and determine the impact on the OEFC
- Continuing to support the IEI program.
 - Projections for 2016-17 in Budget 2016 show an excess of revenue over expense of about \$0.6 billion, which would reduce the Corporation's unfunded liability (or stranded debt) to below \$4 billion. This would be the thirteenth consecutive annual decline in the unfunded liability.
 - Provided support for the implementation of the government's policy on broadening Hydro One ownership, including the dedication of proceeds related to the book value of shares sold towards paying down the Province's electricity sector debt and other payables with OEFC and financial benefits provided by the Province to OEFC as per section 50.3 of the *Electricity Act, 1998*.

Key Objectives for 2017-2020, consistent with its mandate letter from the Minister of Finance, include the following:

- Manage debt and other liabilities cost-effectively.
- Manage financial risk within approved policy limits.
- Manage and administer the non-utility generator (NUG) contracts and demand management contracts.
- Manage and administer a contract with IESO in support of its Industrial Electricity Incentive (IEI) demand management program.
- Provide financial assistance, as required, to the Ontario Hydro successor corporations.
- Support the implementation of the government's electricity industry policies and determine the impact on the OEFC.

Governing Legislation and Mandate

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): Ontario Power Generation Inc. (OPG), Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and the OEFC.

Pursuant to the Act, the OEFC's mandate includes the following:

- Managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro.
- Managing the former Ontario Hydro's NUG contracts.
- Receiving all payments and administering other assets, liabilities, rights and obligations of the former Ontario Hydro 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 and a distributor owned or controlled, directly or indirectly, by Her majesty the Queen in Right of Ontario and licensed by the Ontario Energy Board.
- Entering into financial and other agreements relating to electricity supply or management of electricity demand, in Ontario.
- Performing any additional objects as specified by the Lieutenant Governor in Council.

Strategic Directions and Performance Measures

1. Manage Debt and Other Liabilities Cost-Effectively

Objective	Performance Measure	Targets
Manage financing requirements in a sound and efficient manner. The OEFC manages the debt and liabilities of the former Ontario Hydro, with total debt of \$24.3 billion as at March 31, 2016. The 2017-18 Financing, Debt and Electricity Management Plan for the Province and the OEFC will detail strategies and operational objectives on how the OEFC will manage its debt portfolio. The plan will reflect considerations such as investor demand, market structure, interest rate outlooks, OEFC cash flows and debt maturity constraints.	For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. Performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The OEFC has existing long-term debt maturities totalling \$2.1 billion, \$0.7 billion, and \$1.4 billion in 2017-18, 2018-19 and 2019-20 respectively. The requirement for refinancings or new borrowings will take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One, as well as any loan requirements from OPG. The strategy for OEFC's borrowing requirement will be presented in the 2017-18 Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by Internal Audit Division.
Working with OPG and Hydro One to effectively manage claims against OEFC and Hydro One or OPG relating to the former Ontario Hydro's federal permits and related facilities on First Nation Reserves ("Permit Claims"). (Hydro One and OPG maintain most of these facilities; however, in some cases, legal title remains in OEFC as the continuation of Ontario Hydro.)	Permit Claims are defended or settled without liability to OEFC. OEFC is released from liability relating to Permit Claims.	OEFC is not required to make any payments under any judgement or settlement of a Permit Claim. All settlements of Permit Claims by Hydro One/OPG also include a release of OEFC.

2. Manage Financial Risk within Approved Policy Limits

Objective	Performance Measure	Targets
Manage the debt portfolio within exposure policy limits. Exposures are expected to remain within policy limits throughout 2016-19.	The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.
Setting risk management policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for Market Risk, Credit Risk, Use of Derivatives and Other Financial Instruments, and Risk Management Reporting are regularly reviewed and updated annually. Interest and FX rate exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Objective	Performance Measure	Targets
Minimize NUG costs to ratepayers by utilizing arrangements such as curtailment or incremental power transactions.	The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.
Negotiate any necessary revisions to the NUG contracts.	Successful negotiation of revisions to the contracts necessary to ensure that the contracts are consistent with the current electricity market environment and government policy. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy.
Provide effective administration of NUG power purchase agreements (PPAs).	Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee the performance of the meter service provider under contract to OEFC, to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing contract terms, electricity market rules and standards.	Maintain and improve operational systems, applications and infrastructure as required. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Provide operational and market settlement information and advice in support of legal proceedings, renegotiation of contracts and energy curtailments as required.

Objective	Performance Measure	Targets
Administer the OEFC's obligations to provide the IESO support for its DRC offset payments made under the IEI demand management program.	Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Objective	Performance Measure	Targets
Facilitate the cash flow requirements of the successor corporations.	Review and analyze requests from successor companies to ease cash flow constraints. Review and analyze requests from OPG to provide flexibility in debt term structure.	Provide and monitor credit facilities to OPG and IESO, as needed, for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required, including greater access to 30-year borrowing for OPG.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Objective	Performance Measure	Targets
Monitor the financial performance of the successor electricity corporations. Monitor, review and respond to developments and/or government policy initiatives in the electricity sector.	Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the DRC, payments in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and continue to monitor and analyze Hydro One's financial results. Meet operational requirements on a timely basis to implement the government's policy initiatives. Provide analysis and advice on the financial impacts on OEFC from broadening ownership of Hydro One.

Objective	Performance Measure	Targets
Timely and accurate financial reporting.	Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Continue to review the long-term OEFC model.
Implement Directives from the Minister of Finance.	Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.

Risk Identification, Assessment and Mitigation Strategies

Risk Category: STRATEGIC				
RISK AREA: Strategic/ Policy/ Performance Risk: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with OPS policies). The risk that strategies and policies fail to achieve required/ targeted results. The risk of not providing value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence / Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Electricity Policy Changes	Government policy changes that could result in additional responsibilities for the OEFC, or have a net impact on OEFC through changes in cash flows or dedicated revenues to OEFC.	Medium / Medium	Medium	Monitor, assess and respond to developments in support of the government's electricity plan. Corporate and Electricity Finance Division (CEFD) provides financial, fiscal impact and policy analysis and advice to the Deputy Minister and Minister of Finance on the electricity sector, including the fiscal impacts on the Province of proposed government policies. CEFD staff also provide on-going financial and fiscal impact analysis to other divisions in the Ministry of Finance and TBS, including OTB, OPCD, OB, OEP, TPD, and CQSD. CEFD and OFA staff support the OEFC by providing financial analysis and advice to the Deputy and Minister to inform government's policy making process, including advice on fiscal impacts from the impact on OEFC and pay down of the stranded debt and potential cost recovery from the rate base.
Strategic Planning (Annual Business Plan)	Strategies and policies fail to achieve required results.	Low/Medium	Medium	A three-year OEFC business plan is approved by the Minister of Finance and OEFC's Board of Directors. Quarterly progress reports are provided to the OEFC's Board and reporting on the achievement of strategic objectives for the previous fiscal year is included in the business plan.

				OEFC monitors the electricity sector environment and provides analysis and advice on policy options which could directly or indirectly have an impact on OEFC and relevant stakeholders. The Ministry of Finance will be consulted before any change is made to OEFC's strategic direction or programs that require ministry and/or TB/MBC approval. The Financing, Debt and Electricity Management Plan for OEFC is developed based on in-depth research and analysis and is adjusted throughout the year as conditions change. The Audit Committee (AC) of the Board works with Ontario Internal Audit Division to ensure that the annual OEFC audit plan allows for the auditors to assist with program design and provides for audits of any high risk aspects of programs.
Meeting Stakeholder Expectations	The risk that OEFC may fail to meet stakeholder expectations, including those of the Province and other public bodies.	Low/Medium	Medium	OEFC manages the former Ontario Hydro's debt and administers the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities, including the Non-Utility Generator contracts, and provides financial assistance to the successor corporations of Ontario Hydro. OEFC is available to meet with any OEFC electricity contract counterparty as required. OEFC senior management maintains regular and frequent contact with the Deputy Minister's Office, the Deputy Minister of Energy and the OEFC Board. This is complemented through quarterly board meetings chaired by the Deputy Minister of Finance and annual reporting to the Minister of Finance through the Business Plan and the Annual Report. OEFC's reporting to external stakeholders is through posting on its website the Business Plan and publishing the Annual Report, and its annual financial statements are included in the Public Accounts of the Province. The OEFC also maintains and updates a website accessible to external stakeholders.

Financial Market Risk	Higher-than-forecast interest rates resulting in higher annual financing charges.	Low/Medium	Low	Manage net interest rate resetting exposure. Diversify the borrowing program by managing its pace and the debt maturity profile. The broadening of ownership of Hydro One has resulted in a significant cash inflow to OEFC to date and as projected. As such OEFC is projected not to engage in borrowing to fund maturing debt in 2016-17 and most likely in the two out years.
Credit Risk	The risk that counterparty defaults on its obligations arising from financial and derivative transactions.	Low/Medium	Low	Reduce exposure to external counterparties with a credit rating of single-A, and lower by using standard credit mitigation techniques, including the possible execution of collateral agreements, re-couponing and terminations. Entities with high potential exposures relative to credit limits will be used sparingly when initiating new swaps. The OEFC's exposure to external counterparties is minimal and will no longer exist post 2016-17 when all derivate contracts with all external counterparties expire.
Dedicated Revenues of the Electricity Sector to OEFC	The amount of dedicated revenues to OEFC affect stranded debt pay down.	Medium/Medium	Medium	OFA/CEFD staff receive and review OPG business plans and monthly financial updates and Hydro One's publicly available financial information and provide projections and analysis, as well as potential options, to the government and OEFC. Monitor and assess the impacts of Hydro One rate applications and decisions, and public financial reporting information. Monitor MEU PILs cash flows and MEU financial statements. OFA jointly manages the nuclear funds. Diversify the nuclear funds investment portfolio globally using a variety of fund managers in different sectors.

Risk Category: ACCOUNTABILITY/GOVERNANCE

RISK AREA: Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, MOU or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Meeting statutory requirements	Risk of non-compliance with statutory requirements	Low/Medium	Low	MOF/OFA Legal Branches, as applicable, advise of statutory changes affecting OEFC operations and key directives are distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO. Non-compliance with applicable laws or regulations would also be reported to the Board quarterly (or sooner, depending on the severity). CEO/Board direct remedial action (which may include training). Ministry/MGS HR personnel would advise on any disciplinary action.
Reliability of financial systems	The risk that the OEFC's financial information and reporting system (through the OFA) is not reliable or fails to meet quality standards.	Low/Low	Low	The OEFC has well-established processes and procedures for monitoring and reporting on its financial performance to its Audit Committee, Board of Directors and to the Ministry. OEFC financials are prepared on a quarterly basis for discussion and approval by the OEFC Audit Committee and Board of Directors. Changes to accounting pronouncements are also addressed during the quarterly discussions. Annual budgets and audited financials are submitted to the ministry as per TBS requirements. Internal controls and financial systems are assessed by both the staff of the Office of the Auditor General and the Province's Internal Audit Division on an annual basis. So far no material issues have been identified.
First Nations Litigation	OEFC, as a legal successor to Ontario Hydro, is at risk of being named in First Nations lawsuits.	Low/Medium	Medium	OEFC is indemnified by OPG and/or Hydro One for any liability in relation to the matters raised in these lawsuits.

NUG litigation	OEFC, as a legal successor to Ontario Hydro, is party to lawsuits by non-utility generators (NUGs) relating to their power purchase agreements (PPAs) originally entered into with Ontario Hydro.	High/Low	Medium	OEFC administers these claims based on appropriate legal advice. The risk is reduced as PPAs expire/terminate. The impact on OEFC is mitigated by legislative amendments in 2005, under which OEFC fully recovers its NUG contract costs through the Global Adjustment. Any costs paid by OEFC are passed through to consumers through the Global Adjustment.

Risk Category: OPERATIONAL				
RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Operational Risk	Risk of not effecting settlement of electricity transactions and payments to the NUGs, or other contract counterparties, conducted by the OEFC since January 1, 2005.	Low/Low	Low	Systems, procedures and controls have been in place and continuously improved since inception and staff are adequately trained, with no significant issues.

Risk Category: WORKFORCE				
RISK AREA: Workforce: Operational Workforce Risks				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Collective Agreements/ Worker Compensation/ Salary Settlement Costs	Retention of key skill sets and staff for the roles and competencies they provide to OEFC. Without a unique compensation plan, with base compensation established to ensure retention of key skill sets for Capital Markets and certain Risk Control staff, the OFA would be severely limited in its ability to retain existing staff and would face a near impossible task of attracting external qualified candidates.	Low/High	Medium	Work to achieve and/or maintain the ability, or utilise the available scope, to compensate staff fairly and in comparison to competitors to limit turnover, and in accordance with applicable legislation or compensation directives.

	Compensation for most other OFA positions supporting OEFC are tied to the OPS Management Compensation Plan, which may limit the OFA's ability to attract and retain staff with the required skill sets.			

Risk Category: INFORMATION TECHNOLOGY AND INFRASTRUCTURE

RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Privacy and security	Does the agency handle sensitive/confidential information on behalf of the government? How does the agency reduce the potential compromise of personal data through	Low/Medium	Low	Access to all electronic data requires some form of authentication. Security of electronic and hard copy information is provided by key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a yearly basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply.

	identity theft, or unauthorized electronic or physical access of information?			OFA Trading Restrictions and Disclosure Requirements Policy is provided to OFA staff, along with any additional direction as required (e.g., Hydro One transactions).
Business continuity	What are the processes in place to ensure that critical I&IT systems are available for operation to support business requirements (disaster recovery & business continuity planning)?	Low/Low	Low	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's disaster recovery (DR) site. Critical production systems are routinely run out of the DR site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes remote equipment, remote access services and mobile telephones. Internal Audit Division is conducting an audit of the OFA BCP.

Risk Category: OTHER

RISK AREA: Other Risk: Risk that does not fit in any of the above categories. Corporate Social Responsibility concerns – Environment, Climate Change, Energy Management, Health Promotion, Waste Reduction, Fair Trade practices. Organizational Assets – Facilities and Equipment, Personal Safety, Physical Security. Issues relating to third parties that are involved with the agency such as service or goods providers.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy

Additional risks	How does the agency ensure that consideration of financial risk is an ongoing exercise within the agency; i.e., the potential costs of relationships with third party service providers or suppliers?	Low/Low	Low	As part of procuring service providers and supplies, the OFA's procurement policy requires identification of the cost of the contract over the term, including renewals and consideration of other options.

Environmental Scan: Assessment of Issues Facing the OEFC

Factors that could affect OEFC meeting financial projections or core corporate objectives are described below.

External Factors

- The financial performances of OPG and Hydro One affect OEFC revenues relating to
 - i) the electricity sector dedicated income from the Province, which is the Province's combined net income from OPG and Hydro One in excess of the Province's interest costs of its investment in its electricity subsidiaries, and
 - ii) OPG payments in lieu of taxes (PILs) to the OEFC, and payments to OEFC in respect of Hydro One Inc. provincial corporate income taxes.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through MEU PILs to the OEFC.
- The Ontario Energy Board's (OEB) decisions on regulated rates, including the allowed return on equity, may affect projected OPG and Hydro One's financial performance and MEU PILs.
- Additional financial assistance to OPG may be required in the future, including debt maturity refinancing and new loans.
- The Province's progress in broadening Hydro One ownership will affect the OEFC's dedicated income from the Province related to Hydro One. The dedication of certain proceeds from Hydro One share offerings may affect OEFC's cash flows, refinancing requirements and debt interest costs.

Economic conditions and electricity demand:

- Economic conditions, industrial activity, and higher/lower electricity demand have an impact on the OEFC through net incomes of OPG, Brampton Distribution Holdco Inc. and Hydro One, Hydro One provincial CIT, OPG and MEU PILs, and Debt Retirement Charge (DRC) revenue. An economic downturn/recovery would tend to decrease/increase electricity demand.
- Electricity demand lower than projections in regulatory filings could result in lower revenues for OPG, Hydro One and MEUs in the absence of recovery through variance accounts. In addition, lower demand could trigger curtailments for hydroelectric and nuclear production, potentially resulting in a negative financial impact to OPG if these costs are non-recoverable in rates.
- Lower electricity consumption also results in lower DRC revenues.
- Economic conditions may affect pension costs for OPG and Hydro One. Any pension costs not recovered through electricity rates or deviating from forecasts without recovery through variance accounts would lead to reductions in earnings of OPG and Hydro One.

Financial markets:

- Soft inflation and slowing growth led the Bank of Canada to cut the target overnight rate by 50 basis points in 2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.
- In the United States, the Federal Reserve raised rates for the first time since 2006 at its December 2015 meeting, and again on December 14, 2016, citing a solid labour market and expectations for inflation to rise, in the medium-term, towards its 2 per cent target as reasons for the hike. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, the European Central Bank in January 2017 announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time."
- According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018..
- The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Changes to the government policy environment can affect OEFC revenues and expenses:

- Changes in corporate tax rates would affect OEFC's current and projected future payments-in-lieu of tax revenues to OEFC from OPG and MEUs and current and projected future payments of Hydro One provincial corporate income tax allocated by the Province.
- The government has acted on the Premier's Advisory Council on Government Assets' recommendation of broadening Hydro One's ownership with an initial public offering of approximately 15 per cent as well as a secondary offering of an additional 14 per cent of shares with plans to undertake subsequent share sales over time, totalling up to 60 per cent of voting securities in Hydro One.
- The government is moving forward with a merger of Hydro One Brampton through a sale to Alectra, a newly merged entity of three urban local distribution companies to contribute to and encourage consolidation in the distribution sector.
- Hydro One has gone forward with acquisitions in the local distribution sector:
 - On August 15, 2016, an agreement was reached for Hydro One to acquire Orillia Power Distribution Corporation from the City of Orillia, Ontario.
- Hydro One Limited announced on October 31, 2016, that its wholly-owned subsidiary Hydro One Inc. completed the purchase of Great Lakes Power Transmission LP, following approval of the transaction by the Ontario Energy Board on October 13, 2016.
- Government policy and implementation in moving forward with these plans could affect OEFC's current and projected revenue streams from the Province, Hydro One and MEUs, and affect OEFC's expenses.

- The Province's plan to broaden ownership of Hydro One affects OEFC revenues and expenses relating to
 - i) the electricity sector dedicated income from the Province, as
 - a) a decrease in Provincial ownership will reduce the Province's share of Hydro One net income, and
 - b) the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will reduce the Province's interest payments to OEFC related to its investment in Hydro One, and
 - ii) the financial benefit as per section 50.3 of the *Electricity Act, 1998* related to the sale of Hydro One shares.
 - iii) interest on debt, as the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will provide OEFC with cash inflows that help reduce borrowing requirements.
- Acquisitions by Hydro One would move the income related to those entities out of the PILs regime, reducing OEFC PILs. Such acquisitions may also increase Hydro One net income, which could increase ESDI to OEFC.
- Government policy that would affect electricity load, up or down, with an increase or decrease in DRC revenue, up to the legislated end date of April 1, 2018, from commercial, industrial and other electricity users, offset by any expense to support load management.

Resources

OEFC has no employees. Since April 1, 1999, pursuant to a directive from the Minister of Finance, the OFA has conducted borrowing and related debt and risk management activities, cash management, banking, accounting, financial reporting, forecasting and other related activities on a cost-recovery basis for the OEFC.

Many OFA staff perform OEFC-related functions; for efficiency reasons, these staff are integrated with OFA business units. The costs of twenty full-time equivalents (FTEs) and associated overhead are fully recovered from the OEFC. OFA positions are generally excluded from collective bargaining as the OFA performs borrowing and investing on behalf of the Province, including the OEFC.

In accordance with a Memorandum of Understanding (MOU) between the OEFC and the Ministry of Finance, an agreed number of FTEs has been allocated to the Ministry of Finance to provide revenue collection and reporting services. Costs of these positions are fully recoverable from the OEFC.

The OFA works closely with the Ministry of Finance's human resources branch to implement and maintain the government's human resource strategies, policies and practices.

Financial Statements and Budget

Proposed Operating Expenditures, Projected Revenues & Funding Requirements

The OEFC is an operational enterprise agency of the Province. It has a legislated requirement to issue audited financial statements for the fiscal year, which are approved by its Board of Directors and to submit these to the Minister of Finance within 90 days after the end of every fiscal year. The financial statements summarize the OEFC's revenues and expenditures and are tabled in the Legislature once approved by the Minister of Finance. The statements are also included in the Public Accounts of Ontario. The financial results of the OEFC are consolidated with those of the Province for Public Accounts and Budget purposes.

The business plan shows the operational costs of the OEFC. The following budget table provides the projected cost of functions performed by the OFA and the Ministry of Finance to be recovered from the OEFC. The OEFC does not undertake any capital expenditures.

	Actual	Interim	Budget		
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Salaries	2,182,877	2,226,534	2,271,065	2,316,486	2,362,816
Benefits	297,665	303,618	309,691	315,885	322,202
	2,480,542	2,530,152	2,580,756	2,632,371	2,685,018
Debt Management Costs	542,909	553,860	564,937	576,236	587,761
Direct Operating Expenses	660,072	673,274	686,739	700,474	714,484
Total OFA Cost Recoveries	\$3,683,523	\$3,757,286	\$3,832,432	\$3,909,081	\$3,987,263
MOF Chargeback for PILS and DRC Audit and Administration Costs	1,800,000	1,800,000	1,800,000	1,900,000	1,900,000
Total Cost Recoveries charged to OEFC	\$5,483,523	\$5,557,286	\$5,632,432	\$5,809,081	\$5,887,263

OFA cost recoveries including debt management costs are in accordance with the MOU between the OEFC and the OFA. Staffing and other out-of-pocket costs expended on the administration, audit and collection of the PILs and the DRC, are recovered by the Ministry of Finance on a quarterly basis in accordance with the respective MOU.

Initiatives Involving Third Parties

OEFC manages and administers electricity contracts with Non-Utility Generators. In its management of these contracts, OEFC may consult with the provincial government and the Independent Electricity System Operator (IESO), and retain external consultants.

OEFC provides the IESO support for its DRC offset payments made under the Industrial Electricity Incentive (IEI) demand management program.

There are no other third parties, other than the provincial government and its agencies, with which the OEFC is partnering or with which it has a funding relationship for the purpose of delivering OEFC programs. Moreover, the OEFC does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

Implementation Plan

For 2017–20, the OEFC intends to implement its business plan using existing resources.

Communications Plan

OEFC updates, including annual reports, bulletins, information for Ontario Hydro bondholders and electricity sector updates can be found on www.oefc.on.ca. Annual financial statements are also available in Volume 2 of the Public Accounts of Ontario. Financial and borrowing updates can be found in the Provincial Budget, the Economic Outlook and Fiscal Review, Ontario's Quarterly Finances and the OFA Bulletin.

The OFA also responds to inquiries from investors about bonds issued by the former Ontario Hydro, as well as inquiries from the public regarding the OEFC and its responsibilities.

Appendix A – Overview of 2016-17 Results

1. Manage Debt and Other Liabilities Cost-Effectively

Performance Measures	Targets	Results
For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The requirement for refinancings or new borrowings to take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One. The borrowing strategy for OEFC will be presented in the Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. (All results are validated by Internal Audit Division.)	There is no borrowing planned for OEFC in the 2016-17 fiscal year. As of January 16, 2017, there has been no borrowing for OEFC.
OEFC works with Hydro One to determine an effective strategy for transfers in cases where new permits are not being issued by the federal government due to backlogs. Meeting this objective is not completely within OEFC's control.	OEFC and Hydro One develop options for transfers where the federal government is not issuing new permits	Decision was made to specifically address in OEFC's agreements with First Nations, the possibility of new permits not being issued.

2. Manage Financial Risk within Approved Policy Limits

Performance Measures	Targets	Results
The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.	As at November 30, 2016: - foreign exchange exposure was 0.03 per cent of outstanding debt; - net interest rate resetting exposure was 4.2 per cent of outstanding debt; - there was no breach of the IOD loss limit or counterparty default; and - all credit exposures were within approved limits.
Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments, and risk management reporting are regularly reviewed and updated. Exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.	Revisions to the OEFC's Credit Risk Policy were approved by the OEFC Board of Directors on April 15, 2016. Revisions to the OEFC's Policy on the Use of Derivatives and Other Financial Instruments, and Risk Management Reporting Policy were approved by the OEFC Board of Directors on September 23, 2016. Revisions to the OEFC's Market Risk Policy were approved by the OEFC Board of Directors on December 16, 2016. NIRRE and FX exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures and results are reported to the BSC.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Performance Measures	Targets	Results
The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment, incremental power and other arrangements with the NUGs while protecting the interests of the ratepayers.	From April 1, 2016 to October 31, 2016, savings from curtailments totalled \$12.8 million. Worked with IESO in coordinating curtailments in response to surplus baseload generation.
Successful negotiation of any necessary revisions to the contracts. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy. Respond to requests, where provided for in the PPA, from NUGs for contract extensions. Accurate and timely provision of information and analysis required by external legal counsel to represent OEFC in NUG litigation.	Ongoing monitoring and assessment of electricity market conditions with a view to identifying implications for NUG contract management and outstanding litigation. Ongoing management of NUG contract issues by evaluating contract change requests including requests for financial support and for contract extensions with a view to minimizing ratepayer impact. Support for NUG litigation including development of any required analysis. In particular, staff provided support for a lawsuit related to a change by the Ministry of Energy in the allocation of the Global Adjustment. Based on support from IESO, to support its initiative, as directed by the Minister of Energy, OEFC entered into an agreement to curtail a natural gas-fired NUG for most of the month of December. IESO verified that the curtailment payment is on substantially the same basis as longer term curtailments being discussed, and it provided support for the OEFC curtailment as it would help facilitate ratepayer savings that will be generated under the longer term agreement being negotiated by IESO. OEFC has also terminated three and suspended two gas-fired NUG PPAs to allow for those NUGs to enter into curtailment agreements with the IESO that provide them an incentive to operate in a manner that is better aligned with the integrated power system's needs, reducing costs to

Performance Measures	Targets	Results
		ratepayers and lowering carbon emissions.
Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee meter service provider performance to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing market rules and standards.	Implement and maintain all required operational systems and infrastructure. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Negotiate amendments to existing PPAs and incremental power purchase transactions as required.	PPAs continued to be managed effectively with energy payments settled accurately and on a timely basis. Received a clean opinion by Ontario Internal Audit from its bi-annual audit of NUG contract administration. Replacement of meters with 2016 seal expiries and installations of new TCP/IP communication protocols have been completed as scheduled. Completed the metering asset transfers and IESO settlement deregistrations for West Windsor Power and TransAlta Windsor upon its PPA termination. Timely updates to the PPA rates and adjustment payments to the NUGs reflecting various index changes. In compliance with the court order for the GA lawsuit settlement, reviewed revisions to the TMC/DCR new escalation indices and calculated, as well as, verified all the 2011-2015 retro-rate adjustments and payments totalling about \$181 million. Continued to provide inputs and energy settlement calculations for contract negotiations and preparations of affidavits & facts for various legal proceedings as required.

Performance Measures	Targets	Results
Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.	Invoices were received and all payments were settled in a timely manner.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Performance Measures	Targets	Results
Review and analyze requests from successor companies to ease cash flow constraints.	If necessary, provide additional credit facilities to OPG for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required.	Monitored and provided analysis and advice on OPG's liquidity, borrowing program and credit rating. Monitored a \$700 million credit facility with OEFC to provide financing for OPG's equity contribution to the Lower Mattagami project. The facility expired June 30, 2016, with no draws. Provided analysis and advice on and monitored OPG's external financing activities (commercial paper, public market project financing). Monitored a credit facility to OPG of up to \$800 million for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project, up to December 31, 2016. A new credit facility of \$700 million with OPG was put in place for 2017, with the agreement being amended to increase the credit facility to \$1.5 billion up to December 31, 2017 and \$2.35 billion thereafter until December 31, 2018. Monitoring a \$90 million loan refinancing and a \$95 million credit facility extension to the IESO, both

Performance Measures	Targets	Results
		expiring April 30, 2017, to provide the IESO with flexibility to meet financing and liquidity requirements.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Performance Measure	Targets	Results
Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the debt retirement charge (DRC), payment in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and analyze publicly available information from Hydro One. Meet operational requirements on a timely basis to implement the government's policy initiatives.	Monitored and analyzed OPG and Hydro One financial results. Monitored and provided analysis and advice on the fiscal impacts of OPG business plan's projections, as well as OPG and Hydro One publicly available financial information and rate application submissions to / decisions of the Ontario Energy Board (OEB), including monitoring of regulatory proceedings. Provided periodic electricity sector outlook and fiscal updates with respect to OEFC to various divisions within the Ministry of Finance and Treasury Board Secretariat, including for the Budget, Public Accounts and Fall Economic Statement. Provided analysis, advice, and implementation support regarding the financial impacts on OEFC from broadening Hydro One ownership, including financial benefits under section 50.3 of the <i>Electricity Act, 1998</i> and the Province's commitment to dedicating proceeds related to the book value of shares sold to OEFC. Prepared submission packages for statutory appropriation expense item for Hydro One provincial corporate income tax payable to the OEFC, as provided for under section 91.2 of the <i>Electricity Act, 1998</i>
Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections to the Auditor General for review and audit committee and Board for approval.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Perform annual update of the long-term defeasance model.	Completed 2015-16 audited financial statements and annual report, and interim quarterly financial statements for 2016-17. Provided OEFC financial information for 2015-16 Public Accounts. Prepared 2017-18 OEFC PRRT (Program Review, Renewal, and Transformation) submission and updated forecast for the 2016 Fall Economic Statement. Reviewed and updated the long-term OEFC model, including analysis of electricity sector policy scenarios.

Performance Measure	Targets	Results
Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.	Implemented a Minister of Finance Directive to OEFC to provide a credit facility to OPG for 2017 for general corporate requirements, including the Darlington Refurbishment Project. Continued to implement past, active Directives.

Appendix B –Corporate Structure and Accountability

Governing Legislation

Pursuant to the *Electricity Act, 1998* (the Act), OEFC is the legal continuation of Ontario Hydro and is a corporation without share capital. Its legislative mandate is set out in the Act. The Act provides for the appointment by the Lieutenant Governor in Council of a Board of Directors to supervise the management of the OEFC. The Act provides that the CEO is appointed by the Lieutenant Governor in Council, on the recommendation of the Minister of Finance. The CEO is responsible for managing the day to day operations of the OEFC.

Agency Classification

The Act provides that the OEFC is an agent of the Crown. It is classified as a “Board Governed Agency” agency pursuant to Management Board’s Agencies and Appointments Directive.

Minister of Finance

The Minister of Finance is responsible to the Legislature for the fulfilment of the OEFC’s mandate and reporting on the affairs of the OEFC, including tabling of the annual report in the Legislature. The Minister approves the OEFC’s annual business plan, which may also be reviewed at any time at the request of the Minister or Management Board of Cabinet (MBC).

In accordance with MBC requirements, the Minister enters into or affirms a Memorandum of Understanding (MOU) with the OEFC which sets out the OEFC’s mandate and the roles and responsibilities of senior management, including the Chair, Board of Directors and CEO. The MOU also sets out financial and other reporting responsibilities of the OEFC to the Minister. The Minister recommends the approval of the MOU by MBC.

Deputy Minister and Chair

The Deputy Minister of Finance advises the Minister of major issues or developments involving OEFC. Generally, the Deputy Minister is also appointed as Chair of the OEFC. As Chair, he or she provides leadership and direction to the OEFC Board and is responsible for developing the MOU with the Minister and for submitting the annual business plan, including budget, to the Minister.

Corporate Governance

Board of Directors

The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. In accordance with the OEFC's MOU with the Minister of Finance, the OEFC Board performs a supervisory role. It oversees the management of the OEFC and helps to ensure that the OEFC's mandate, as determined by the Province, is implemented. The Board is currently comprised of current and former public servants.

The Board fulfills its responsibilities through regular meetings of its Audit Committee and meetings of the full Board, receipt of regular reports from management and approval of the OEFC's financial risk policies as well as its internal audit plan, annual business plan and annual report. The Board receives quarterly reports from management regarding OEFC's compliance with applicable laws, directives and policies. The Board may enact by-laws for the OEFC, which must be approved by the Minister of Finance. The Board meets at least once quarterly.

OEFC is required to provide its annual report to the Minister of Finance within 90 days of the fiscal year end, or, if extended by the Minister, by the day on which the Public Accounts of Ontario are released. The annual report is tabled in the Legislature. The OEFC financial statements are included in the Public Accounts of Ontario.

Audit Committee

The Audit Committee supports the Board of Directors. It reviews the OEFC's financial statements and recommends them to the Board of Directors. It also approves the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls. Another function of the Audit Committee is to receive regular reports regarding OEFC's compliance with legal and regulatory requirements and applicable government directives and policies.

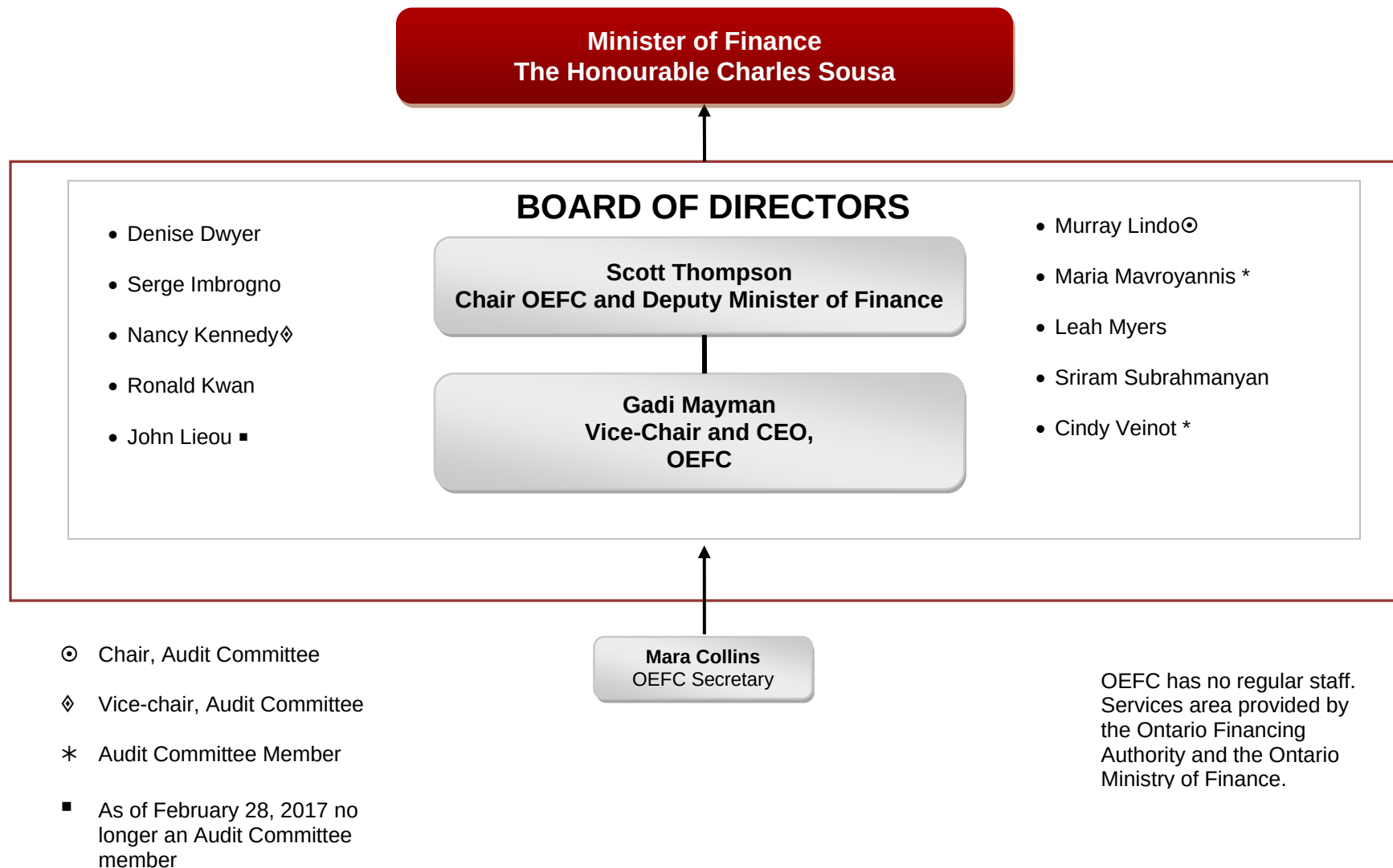
Chief Executive Officer (CEO)

The CEO is accountable to the Board for managing the day to day operations of the OEFC in accordance with its annual business plan, the OEFC's by-laws, Board-approved policies, and applicable ministerial and government directives. The CEO reports at each quarterly board meeting regarding the operations of the OEFC. The CEO also reports to the Chair concerning the OEFC.

Employees

The OEFC does not have any employees, although some OFA staff members are designated as officers of the OEFC for the purpose of executing agreements and other documents on its behalf. The OFA and staff in the Ministry of Finance carry out the OEFC's day to day operations under the supervision of the CEO and the OEFC Board.

Ontario Electricity Financial Corporation (OEFC) Organization Chart



From: [Serena Ly](#)
To: [Christina Zhang](#)
Subject: OFA BP 2017-20
Date: Monday, February 27, 2017 4:46:12 PM
Attachments: [2017-20 OFA Business Plan.pdf](#)



2017–20 Business Plan

Approved by the Board of Directors

February 10, 2017

Date

Approved by the Minister of Finance

Signature

Date

The Honourable Charles Sousa
Minister of Finance

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EXECUTIVE SUMMARY

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). The initiatives in the OFA's 2017–20 Business Plan will focus on achieving the objectives set out in CIPA and the objectives set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016 over a three year planning horizon, as well as reporting on results of the previous year's Business Plan. Initiatives for the 2017–20 Plan include:

1. Executing the Province's borrowing program through development and implementation of the annual Financing, Debt & Electricity Management Plan. The Plan will provide critical details on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
2. Managing the Province's debt, investments, Ontario Nuclear Funds Agreement (ONFA) and financial risk, and contributing to the development of the Province's fiscal plan and outlook by working to generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds for various public bodies. This also involves managing ONFA-related investments, working together with Ontario Power Generation Inc. (OPG), to ensure interest rate, foreign exchange and credit exposures are within approved policy limits, as well as contributing to the Province's annual Budget, Fall Statement and quarterly finances.
3. Managing key financial relationships by building and maintaining connections with investors in both existing and new markets, as well as relationships with banks, financial service providers and investment dealers. This includes providing Investor Relations information products and updates on the OFA website. Maintaining close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives, and complete regulatory filings with the U.S. Securities & Exchange Commission (SEC) and any other applicable securities regulators.
4. Providing cash management and banking services on a centralized basis to all ministries and settlement, payment, financial and reporting, loan administration, information technology and client services to the Treasury Program by implementing effective treasury solutions for the Province and client agencies. Ensuring that the Province has sufficient cash available at all times to meet its financial obligations, and continuing to work with the other ministries to advise on banking and cash management components of government initiatives as well as on changes to accounting standards and their impact on the Province's debt and interest on debt.
5. Advising on and implementing corporate and electricity finance projects and policies by providing analysis and advice on cost-effective borrowing, investing and risk management by public bodies and other financing proposals, and on business cases for business supports. This includes providing advice on transactions that may affect the indebtedness or contingent liabilities of Ontario, including provincial guarantees. In addition, undertaking policy and financial analysis, modelling support and implementation, as required, for electricity financings, policies and initiatives, including ONFA, which could have fiscal, financial and/or economic implications for the Province and/or Ontario Electricity Financial Corporation (OEFC).
6. Ensuring the successful activation of OFA's decentralized Business Continuity Plan (BCP) by reviewing and updating the Corporate BCP Framework and Business Unit plans, as well as conducting corporate-wide BCP test exercises.

OVERVIEW OF 2016–17 RESULTS (TO DATE)

The Ontario Financing Authority (OFA) accomplished the following in support of the overall strategic directions outlined in the 2016–19 Business Plan¹:

1. *Execute the Province's borrowing program*

- As of January 31, 2017, the OFA had completed \$20.3 billion (85 per cent) of its \$23.8 billion (as per the 2016 Fall Economic Statement) long-term borrowing requirement for 2016–17. Approximately 82 per cent of long-term borrowing was completed in the Canadian dollar market.
- The 2016–17 Ontario Savings Bond (OSB) campaign raised \$127 million.
- The objectives set out in the 2016–17 Financing, Debt & Electricity Management Plan, approved by the OFA Board, are on track and expected to be successfully completed by fiscal year end.
- Sufficient liquidity has been available over the fiscal year to ensure the Province has been able to meet all of its financial commitments and payment obligations, largely reflecting the long-term borrowing program being consistently ahead of pace.
- Successfully executed five carve-out deals² to-date for the 2016–17 fiscal year (as of January 31, 2017). Held in-depth discussions with individual carve-out investors.
- On January 26, 2017, the Province successfully priced an \$800 million re-opening of its January 2023 Global Green Bond. The six year bond will help fund twelve green infrastructure projects, with an emphasis on clean transportation and energy efficiency and conservation. The transaction represents the third and largest ever Green Bond offering from the Province of Ontario.
- Provided expertise in accounting for Green Bonds, and set up financial accounting and reporting for these investment vehicles that met the requirements outlined by the investor community. Developed and released a second Green Bond newsletter on December 12, 2016, updating investors on the second Green Bond's use of proceeds, project selection process, as well as, providing project updates on the eight projects selected.
- Analyzed the scope and impact of the Markets in Financial Instruments Directive (MiFID) II and the Bank Recovery and Resolution Directive (BRRD) on the Province and implemented required documentation changes to ensure the Province's continued, uninterrupted access to European capital markets.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

- As of January 24, 2017, through the timing of debt issues and related hedging, the cost of regular borrowing for the Province based on the traditional methodology translated to a percentile ranking of 58th percentile against a statistical distribution of benchmark interest rates. As such the percentile ranking for regular borrowings is outside the designated target band of 45 to 55 percentile. The OFA has introduced a more accurate and comprehensive performance measurement methodology based on the tenor of individual debt issues. Applying this methodology, the cost of regular borrowing for the Province for the same date translated to a percentile ranking of 53rd percentile, falling within the target band of 45 to 55 percentile. The cost of strategic foreign borrowing as of January 24, 2017 translated into a percentile ranking of 54th percentile falling within the designated target band for strategic foreign borrowings of 50 to 75 percentile. The new methodology is yet to be extended to cover strategic foreign borrowings. There were no borrowings on behalf of OEFC.

¹ The OFA's fiscal year end is March 31, 2017, but quantitative performance results are as of December 31, 2016, unless otherwise noted.

² In order to accommodate large bond purchases by a single buyer, a large order procedure was implemented on October 14, 2011. The "carve-out" procedure allows for a portion of a bond issue to be sold to a single buyer.

- The money market performance was \$ \$21.6 million or thirteen basis points (bps) better than the benchmark as of December 31, 2016. The performance is eleven bps better than the upper limit of the target band which is plus or minus two bps of the benchmark.
 - The interest-on-debt (IOD) expense for 2016–17 is currently forecast at \$11,375 million, \$381 million lower than forecast in the *2016 Budget*, primarily as a result of lower than forecast interest rates.
 - Funds were managed on a discretionary basis on behalf of the Pension Benefits Guarantee Fund, Deposit Insurance Corporation of Ontario, Ontario Trillium Foundation, Infrastructure Ontario, and a commitment fund for the Ontario Capital Growth Corporation.
 - Funds were managed on a non-discretionary basis on behalf of the Ontario Immigrant Investor Corporation and Northern Ontario Heritage Fund.
 - With OPG, the Used Fuel and Decommissioning Segregated Funds' investments were managed under ONFA. The Funds have grown from \$16.9 billion at January 1, 2015 to about \$19.2 billion at September 30, 2016. As of November 30, 2016, the rate of return for the Used Fuel Fund for one year was 6.88 per cent compared to the market benchmark of 6.89 per cent and a target rate of return of 5.04 per cent. The rate of return for the Decommissioning Fund for one year was 6.79 per cent compared to the market benchmark of 7.07 per cent and a target rate of return of 5.15 per cent.
 - Contributed to the Province's annual Budget and quarterly finances, including the electricity sector outlook and assets; advised on the potential implications of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions.
 - As part of the Pooled Asset Management Working Group, provided technical investment management expertise on the modelling, design and implementation of a pooled asset management entity for institutions in Ontario's broader public sector. In February 2015, a final report was presented to the Minister of Finance. The OFA has continued to assist the Ministry of Finance (MOF) in implementing the Investment Management Corporation of Ontario (IMCO).
 - Administered borrowing authority obtained under the *Financial Administration Act* (FAA) which is required to carry out the Province's borrowing program. Effected changes to the FAA to better align the foreign currency conversion of debt maturities to be refinanced with the methodology used in calculating the Province's annual borrowing requirement.
3. *Manage key financial relationships*
- Held road shows, investor meetings and conference calls to meet with investors in Canada, the United States, Europe and Asia, and hosted meetings at the OFA offices. Held 139 investor meetings and events as of December 31, 2016, including meetings with 10 new accounts. Provided keynote speakers and panelists at industry conferences in Toronto and New York City. Promoted Toronto as a global financial centre.
 - Continued development of the OFA website to improve functionality, add additional information for investors and provide full mobile accessibility. As part of Ontario's *Open Data Directive*, the OFA published an Open Data Inventory List on its website, which includes all of the datasets the OFA creates, collects and/or manages. The website continues to be an important tool for communicating with investors and the public, receiving 34,792 visitors during the 2016 calendar year. Three CEO's Corner updates were posted over this time. The OFA email alert list had 363 subscribers as of December 31, 2016.
 - Maintained close relationships and held ongoing discussions with credit rating agencies and the banks which underwrite and distribute the Province's bonds in Canada and around the world to keep them apprised of government priorities and initiatives, the *2016 Budget*, the 2015–2016 Public Accounts, the *2016 Ontario Economic Outlook and Fiscal Review* (Fall Statement), the secondary offering of Hydro One upon its public announcement and other quarterly finance releases.
 - Managed increasingly more rigorous regulatory and disclosure requirements, and maintained close relationships with the regulatory bodies in the global capital markets.
 - Monitored credit exposures to banks with which the OFA has relationships. Executed 10 collateralized swap agreements with bank counterparties and are working toward executing additional agreements in order to mitigate credit risk with bank counterparties.

- Conducted comprehensive reviews of potential rule changes affecting the Province domestically and internationally such as the Market Abuse Directive (MAR) in the European Economic Area (EEA) and fee-based changes with Canada's primary central securities depository (CDS), consulting securities regulators and other capital market participants, as appropriate.
 - Monitored and fully complied with international withholding tax requirements in respect of its financial agreements under FATCA and OECD Common Reporting Standard for Entity Tax Residency.
4. *Provide cash management and banking services as well as settlement, payment services, loan administration and financial and reporting services and client services*
- Provided centralized banking services to the Province by strategically managing banking relationships, as well as providing efficient centralized cash management services to the Province, minimizing interest on debt.
 - Continued to provide cash management services to five client agencies and crown corporations, including the Pension Benefits Guarantee Fund, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario.
 - Managed the complex cash flows and settlement requirements associated with the secondary offering of Hydro One ensuring that these very large and time sensitive transactions were completed on a timely and accurate basis.
 - Continued to advise ministries on the application of the Cash Management Directive with regard to Government priorities including the proposed cap and trade mechanism for Ontario.
 - Continued strategic participation and advice to the cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Coordination Office to assist ministries in maintaining compliance with mandatory security requirements for debit/credit card acceptance.
 - After concluding a successful pilot, continued to work with the Ministry of Community and Social Services to replace social benefits payments made by cheque with a reloadable prepaid card product for all unbanked individuals providing both cost efficiencies, and improved services to Ontarians.
 - Provided analysis and advice to Ministry of the Environment and Climate Change (MOECC) on the structuring of the Province's proposed Cap and Trade auction program, which will be linked with those of California and Quebec, to ensure its sound financial management and protection of the Province's interests.
 - Provided advice to MOECC regarding the selection and management of a Financial Services Administrator to support the auction process, and control structure for the auction-related financial services and receipt of public money aspects.
 - Provided advice to the Ministry of Government and Consumer Services (MGCS) on their procurement of corporate purchasing / travel cards as well as analysis of related *Financial Administration Act* considerations.
 - Provided analysis and advice to ministries on payment options for new programs and program changes e.g. Ministry of Transportation Drive Clean program collections via Pre-Authorized Debit, Ministry of Advanced Education and Skills Development online collection of childcare license fees, and online Program Approval and Registration Information System.
 - Based on an in-depth risk and efficiency analysis the Province determined to no longer accept American Express cards as a payment mechanism. The decision generated savings through the elimination of a parallel infrastructure as well as reduced risk by streamlining PCI data security requirements.
 - Working closely with MOF to develop an e-services strategy for tax collection.
 - Continue to engage with provincial and federal counterparts on treasury and cash management program issues throughout the year.
 - Continued to provide timely and efficient settlement and payment services in managing the Provincial and OEFC debt portfolios and Non-Utility Generator (NUG) power purchase contracts.
 - Continued to work with MOF, MGCS and Treasury Board Secretariat (TBS) in advancing the OFA initiative to move pension plan assets that are currently part of the Consolidated Revenue Fund into

more appropriate asset management structures that have the potential to release up to \$50 million in annualized savings.

- The Integrity Commissioner has graduated the OFA from having to submit the travel expenses of the Board, the CEO and his direct reports and the top five employees in a fiscal year, for review by his office. The graduation is a testament to the timeliness and accuracy exhibited by the OFA in providing this information to the Office of the Commissioner over the past few years.
 - As next steps in providing feedback to the Public Sector Accounting Board (PSAB) with regards to its new standard on Financial Instruments, the OFA has retained Deloitte Inc. to consult with other provinces and provide feedback to PSAB on provincial concerns with the proposed standard.
 - Continued to provide accurate agency financial statements, as well as reported provincial debt, derivatives and investments in accordance with strict legislated timelines. As in past years, the OFA's 2015–16 Financial Statements received an unqualified opinion from the Office of the Auditor General. The Auditor General's annual review of the OFA's financial reporting of the Province's debt and interest on debt presented in the 2015–16 Public Accounts continued to be free of material issues.
 - Renewed and administered long and short term credit facilities between the Province and Ontario Infrastructure and Land Corporation ("OILC").
5. *Advise on and implement corporate and electricity finance projects and policies*
- Advised on capital projects and financing options for ministries and public sector entities.
 - Continued the review of business cases for OFA borrowing requests from public bodies including a number of Ontario colleges, school boards and corporations, expected to result in a total of \$400 million in new long-term loans. Loan program annual savings are estimated to be at least \$30 million per year for a total of approximately \$230 million in cumulative savings to date.
 - Continued to provide advice on municipal debt issuance and investment activities, including the expansion of the Prudent Investor standard to other large municipalities and on the Ministry of Municipal Affairs and Housing new municipal revenue tools strategy.
 - Monitored terms and conditions of loans and loan guarantees and reviewed proposals and provided advice to the Deputy Minister and the Minister on proposed options to amend the loan guarantees and associated loan and contracts.
 - Provided analysis and advice on the Province's investment in the Ontario Venture Capital Fund, the Northleaf Venture Catalyst Fund, Ontario Emerging Technologies Fund and the ScaleUp Ventures Fund. The CEO serves on the Board of Directors, and is a Vice-Chair of, the Ontario Capital Growth Corporation (OCGC), which manages the Province's interests in these four funds.
 - Advised on and reviewed proposed contingent liabilities and indemnity agreements put forward by ministries and public bodies that would increase the indebtedness of the Province, including contingent liabilities and indemnities for major infrastructure projects, accommodation leases or broader public sector borrowing.
 - Provided analysis and advice to the MOECC on the design of the Province's cap and trade auction program as well as the procurement of a financial services provider to the WCI Inc. to provide administrative support to that program.
 - Provided analysis and advice to the MOECC on the establishment of a new climate change agency tasked with the implementation of the ministry's carbon reduction programs.
 - Providing analysis and advice on the application of Section 28 of the *Financial Administration Act* to contracts entered into by public entities that would increase the indebtedness or contingent liabilities of the Province.
 - Led the development of a new protocol for the sharing of powers and responsibilities under Section 28 of the *Financial Administration Act* between the Minister of Finance and the President of Treasury Board.
 - Provided advice to the Ministry of Research, Innovation and Science (MRIS) on private sector refinancing of the MRIS-MaRS Phase 2 loan.

- Provided advice to ministries, Crown agencies and other public entities on loan structuring and credit enhancement strategies.
- Provided advice to the MOF's Office of Economic Policy regarding the Bank of Canada's proposal to extend an Emergency Lending Facility to all provincial credit unions.
- Provided analysis and advice in support of the Ministry of Energy moving forward with secondary offerings of Hydro One shares including, in 2016-17, the secondary offering executed in April 2016.
- Provided advice alongside MOF to help facilitate discussion and progress regarding the agreement-in-principle with First Nations – in support of broadening the ownership of Hydro One by the Province.
- Through a working group, working with Infrastructure Ontario and other areas of government, provided analysis and advice in support of unlocking the value of the Province's real estate assets, including the sale of the LCBO's head office lands in June 2016, and the sales process for OPG headquarters properties.
- Provided policy analysis and advice on the implementation of the Trillium Trust, and proposed framework for making disbursements from the Trillium Trust to receiving ministries in support of public infrastructure investments.
- Provided financial analysis and advice on continuous management and implementation of the commercial agreement with Borealis/Teranet for the electronic land registry system.
- CEO served on the Assistant Deputy Ministers' review committee of the Jobs and Prosperity Fund.
- Provided analysis, advice, and the fiscal impact of the electricity sector and asset optimization initiatives for the Province's annual Budget, Fall Statement, Public Accounts and quarterly finances.
- Supported electricity policies and initiatives, focusing on potential fiscal, financial, and economic impacts on the Province and OEFC, including analysis and advice to support implementation and expansion of the Industrial Electricity Incentive (IEI); expanding the Industrial Conservation Initiative (ICI); ongoing implementation of the Northern Industrial Electricity Rate (NIER) program and its review process, the rebate for residential, small business and farm electricity bills of an amount equal to the eight per cent provincial portion of the Harmonized Sales Tax (HST) or the Ontario Rebate for Electricity Consumers (OREC); and providing analysis and advice on the stranded debt of the electricity sector.
- Provided analysis and advice on proposed new loans facilities and continued to implement new and existing loan agreements between OEFC and OPG related to supply projects and refinancing debt maturities.
- Renewed and continued to implement a credit facility between OFA and the Independent Electricity System Operator (IESO) for liquidity purposes and also provided analysis and advice to ensure financial oversight / governance of these credit facilities following the merger of the OPA and IESO.
- Continued to implement the Aboriginal Loan Guarantee Program (ALGP) to facilitate Aboriginal equity participation in renewable energy and transmission projects. As of December 31, 2016, eight guarantees totalling almost \$240 million have been approved under the ALGP. All applications are reviewed in conjunction with one or more third party due diligence providers.
- Continued to implement the ONFA, including monitoring the segregated fund values, monitoring, reviewing and providing analysis and advice on the Province's approval of OPG's ONFA Reference Plan submission in 2016 and related submissions, reviewing for approval OPG's ONFA Annual Budget submissions and disbursement eligibility and requests, and monitoring the provincial guarantee provided under ONFA to the Canadian Nuclear Safety Commission (CNSC) as part of OPG's financial guarantee requirement to the CNSC.
- Provided analysis and advice on electricity supply initiatives, including nuclear refurbishments.
- Provided continuous support on discussions related to developing infrastructure and projects in the Ring of Fire.
- Provided analysis and advice on policies to support the consolidation of Ontario's electricity Local Distribution Company sector.

6. *Ensure the successful execution of the OFA's decentralized Business Continuity Plan (BCP)*
 - Reviewed and updated the Corporate BCP Framework.
 - Business Units conducted monthly tests, ensuring their respective plans are reviewed and updated.
 - Carried out two corporate-wide BCP test exercises, and implemented improvements to the Plan based on the results of these tests.
 - Reviewed corporate BCP Command and Support Team membership.

2017–20 OBJECTIVES

Key objectives for 2017–20 include the following, as set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016:

1. Execute the Province's borrowing program
2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook
3. Manage key financial relationships
4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services
5. Advise on and implement corporate and electricity finance projects and policies

In addition to the foregoing, the OFA has also identified the following additional key objective:

6. Ensure the successful execution of OFA's decentralized Business Continuity Plan

Total Revenues and Expenditures

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017-18	2018-19	2019-20
Total Revenue	30,071	30,117	30,804	30,856	31,290
Total Expenditure	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

Further detail can be found in the Financial Budget contained in this plan.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval. Note that as part of the 2016–17 PRRT process, Treasury Board disallowed the OFA request for a two per cent inflationary increase in its budgeted allocations for the out years.

MANDATE AND GOVERNING LEGISLATION

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). CIPA sets out the objectives of the OFA. The OFA:

- conducts borrowing and investment for the Province of Ontario and manages the Provincial debt;
- provides cash management and other financial services for the Province;
- advises ministries, Crown agencies, and other public bodies on financial matters; and
- assists Crown agencies and other public bodies to borrow and invest money through external sources or through the OFA.

The OFA also provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario or OILC).

The FAA also sets out certain financial powers which OFA employees exercise on behalf of the Minister of Finance to carry out the Province's borrowing, manage the Province's debt and invest its liquid reserves.

OVERVIEW OF CURRENT AND FUTURE PROGRAM AND ACTIVITIES AND IMPLEMENTATION PLAN: 2017–20

Activities will focus on supporting the following strategic directions:

1. *Execute the Province's borrowing program*

Overview

The OFA endeavours to ensure that borrowing by the Province and OEFC is cost-effective. Total long-term public borrowing is forecast at \$23.3 billion in 2017–18 and \$28.7 billion in 2018–19. This year's objectives may be challenging to implement due to the state of the global economy/market and the resource constraints within which the OFA is operating. Furthermore, borrowing blackouts can limit the amount of time in which the OFA can access the market. This may require borrowing in excess of \$3 billion per month when these blackouts are not in effect in order to complete the annual borrowing requirement. Other challenges include:

- continued high amount of borrowing required for the Province, including the amount that will have to be undertaken outside Canada;
- competition in the markets from other large domestic and international borrowers;
- evolving regulatory requirements such as Basel III, Dodd-Frank and EMIR that continue to make hedging of foreign debt more expensive and a challenge to execute in the size required by the Province;
- potential challenges for Ontario's credit rating. A downgrade may result in borrowing costs increasing; and
- management of downgrading or failure of counterparties, and continued implementation of collateralized swaps to mitigate credit risk.

Implementation Plan

- Develop the annual Financing, Debt & Electricity Management Plans for OFA Board approval and transmission to the Minister. These plans provide detail on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
- Meet the Province's funding requirements, anticipated to average about \$25 billion annually for the business plan period, in a cost-effective and prudent manner.
- Manage the Ontario Savings Bond campaign.
- Continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

Overview

The OFA manages the debt and liquid reserve portfolios, as well as centralized/segregated investment funds, for various public bodies, and jointly manages the Ontario Nuclear Funds with OPG. Financial risks associated with capital market activities are mitigated by adhering to prudent risk management policies which minimize financial risk by ensuring exposures and losses remain within approved limits. Risk management policies and program exposure limits are approved by the OFA Board of Directors. The OFA also contributes interest on debt, borrowing and debt management objectives, and electricity sector fiscal impact projections to the Budget, Fall Statement and other quarterly financial updates.

Implementation Plan

- Generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds, for various public bodies. Manage ONFA-related investments, working together with OPG.
- Ensure interest rate, foreign exchange and credit exposures are within approved policy limits.
- Contribute to the Province's annual Budget, Fall Statement and quarterly finances, including the electricity sector outlook; advise on the potential impact of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions. Continue playing an important role in the development of the Province's annual Budget and quarterly statements through the provision of timely and accurate financial information, and preparation of the Borrowing and Debt Management section of the Budget and Fall Statement.
- Continue with the implementation of the new methodology based on assessing individual debt issues by tenor, to measure the performance of the borrowing program.
- Continue to implement applicable changes as per financial and regulatory reform requirements including evolving effects from Basel III, EMIR and Dodd-Frank. These regulations are expected to continue to make the OFA's hedging process more complex. Hedging may also continue to become more expensive if proposals such as financial transaction taxes or mark-to-market derivatives taxes are legislated and implemented in Europe or the United States.

3. Manage key financial relationships

Overview

The OFA ensures investors and the financial community in Canada and abroad receive financial updates on a timely basis to make informed decisions about Province of Ontario debt securities. Investor Relations activities support borrowing program objectives by maintaining and broadening the Province's investor base. The OFA also ensures credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these factors in their reports and rating decisions.

The OFA manages the government's relationships with financial institutions, primarily the major Canadian and global banks, their investment dealer subsidiaries, and custodial and fiscal agents. This involves the acquisition and oversight of cost-effective products and services for the Province and certain Crown corporations.

Implementation Plan

- Support the Province's borrowing program by building and maintaining relationships with investors in existing and new markets. Provide Investor Relations information products, including updates to the OFA website, on a timely basis.
- Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives.
- Manage Ontario's relationships with banks, financial service providers and investment dealers.
- Complete regulatory filings with the U.S. Securities & Exchange Commission (SEC), United Kingdom Listing Authority (UKLA), Luxembourg Stock Exchange (LuxSE), Australian Securities Exchange (ASX) and any other applicable securities regulator. Conduct due diligence conference calls, as required, with the dealers and underwriters of the Province's debt securities offerings and their legal counsel.
- Implement and maintain collateralized swap agreements with bank counterparties to limit potential financial losses as a result of a credit event.

- Manage changes in financial and regulatory reform, liaising with regulators and legal counsel, as required.
4. *Provide services related to cash management, banking, settlement, payment and financial and reporting*

Overview

The OFA provides centralized banking and cash management services to the Province. The effective provision of these services allows for the efficient delivery of provincial services and contributes towards minimizing interest on debt expenditures. The OFA is responsible for settlements, payments and accounting/reporting functions associated with the Province's and OEFC's debt management programs, as well as agency financial reporting.

Implementation Plan

- Identify and implement effective treasury solutions for the Province and client agencies.
- Ensure that the Province has sufficient cash available at all times to meet its financial obligations.
- While compliance with PCI Data Security Standards is now in its sustainment phase, the OFA will continue to work with the other OPS stakeholders and the credit/debit card acquirer to ensure that the mandatory external reviews continue to report that that Province is in compliance with all applicable PCI standards.
- Continue to work with American Express and TD Merchant Services, the Province's card acquirer, to explore options for the continued acceptance of American Express cards via the acquirer's existing systems for Visa and MasterCard. The new arrangement would enable Amex cards to be used to obtain Provincial goods and services in a way that mitigates risk and increases efficiency for the Province.
- After the completion of a successful pilot, continue to work with the Ministry of Community and Social Services on the rollout of a reloadable payment card for unbanked benefit recipients under the Ontario Disability Support Program.
- Continue to advise ministries and agencies on the banking and cash management components of government initiatives including modernization and suitable banking options, as well as associated legal and regulatory aspects.
- Continue to collaborate with industry associations and provincial and federal jurisdictions on modernization initiatives and issues unique to the public sector.
- Continue the delivery of timely and accurate settlement/payment services for the Province and OEFC, including OEFC power supply contract settlements.
- Continue to work on the replacement of the Public Bodies Financing System with a new, internally developed/externally sourced system capable of handling all loans issued by the OFA and the Province. Progress is expected to proceed according to schedule and it is anticipated that the new system will be operational in 2017–18.
- Continue to work with the Ontario Pension Board, MOF Income Security and Pension Policy Division and TBS on the first phase of regularizing the management of various pension plans whose assets reside in the Consolidated Revenue Fund. The first phase is aimed at transferring the regulated portion of the assets of the Judges' Pension Plan to the IMCO generating annualized savings estimated to be \$15 million.
- Work with the Office of the Provincial Controller and OPG to develop options to address the potential under PSAB for Public Accounts consolidation adjustment impacts from OPG and Hydro One results under the International Financial Reporting Standards.
- Provide timely and reliable net debt and total debt estimates for the 2017 Annual Budget and the Province's quarterly reports during the fiscal year including the Fall Economic Statement.

- Continue to provide timely and accurate financial reporting for the Province on debt, derivatives and investments. Continue to provide timely and accurate agency financial statements that pass scrutiny of the OFA Board and the Office of the Auditor General.
- Continue to work with the Office of the Provincial Controller on providing value-added feedback on Chapter 2 of the Annual Report of the Auditor General of Ontario that deals with Ontario's Public Accounts.
- Continue to monitor and assess any new accounting developments of the International Accounting Standards Board, the Financial Accounting Standards Board in the U.S., the Accounting Standards Board and the PSAB of the Chartered Professional Accountants of Canada that affect reporting for the Province and its agencies.
- Continue to work with Deloitte Inc. in consulting with the accounting and borrowing communities of the other provinces towards providing PSAB with concerns expressed by these jurisdictions and Ontario. Also with Deloitte Inc., collaborate on developing options that address the provinces' concerns. Continue to liaise with the Office of the Provincial Controller and, where required, the Office of the Auditor General of Ontario in communicating with PSAB.

5. *Advise on and implement corporate and electricity finance projects and policies*

Overview

The OFA provides financial modelling, analysis and advice to the Ministry of Finance, other ministries, OEFC, Crown agencies, and other public bodies, on financial policies and projects, electricity sector policies and initiatives, and borrowing from capital markets. The OFA also provides assistance in structuring and completing financial transactions, and securing and using private sector financial advisers. The OFA has been leading the implementation of the Trillium Trust and will also continue to work with the Ministry of Finance, other ministries, and Infrastructure Ontario on on-going asset optimization initiatives, including unlocking the value of certain real estate assets. The OFA is providing analysis and support as the Province moves forward in selling up to 60 per cent of its shares of Hydro One over time.

The OFA will also continue to support and facilitate the implementation of a number of other government initiatives, including the Cap and Trade Program and investing in Ontario's venture capital sector.

Implementation Plan

- Provide analysis and advice on business cases and other financing proposals. Develop the structure and negotiate the detailed terms and conditions of transactions to minimize costs and best meet market expectations.
- Provide advice on cost-effective borrowing, investing and risk management by public bodies.
- Provide advice on transactions requiring a provincial guarantee or those that may otherwise increase the indebtedness or contingent liabilities of Ontario.
- Develop interest rate and other borrowing, investing and risk management policies, and advise ministries, agencies and public bodies on interest rates and other financing issues.
- Support initiatives for Ontario's various industry sectors.
- Provide continued support for the government initiative on OFA loans to public bodies.
- Provide support to the government on Ministry of Finance loans and loan guarantees as required.
- Continue to provide advice to ministries, Crown agencies and other public bodies on financing, loan structuring and credit enhancement strategies.
- Provide advice as required on evaluating the Province's assets, including investments in its business enterprises, and analysis and advice on asset optimization to enhance efficiency and maximize value.

- Provide policy and financial analysis, and modelling support, as required, for electricity policies and initiatives that could have fiscal, financial and/or economic implications for the Province and/or OEFC, including the following:
 - *The Ontario Rebate for Electricity Consumers Act, 2016.*
 - Ongoing implementation of the Industrial Electricity Incentive program.
 - Ongoing implementation of the NIER program.
 - Expanding the Industrial Conservation Initiative.
 - Electricity supply and conservation initiatives.
- Provide financial due diligence and advice to the Minister of Finance on applications received under the ALGP.
- Monitor and provide electricity sector fiscal and financial projections for the Province and OEFC, including analysis and advice to the Minister of Finance on the stranded debt, as well as continued reporting on OEFC's revenue sources (e.g. the debt retirement charge (DRC) for non-residential users, now legislated to end on April 1, 2018, and payments in lieu of taxes) and expenses (e.g. interest on debt).
- Provide analysis and advice to support the effective administration of ONFA and other initiatives related to nuclear liabilities, including monitoring and reviewing OPG's implementation of its ONFA Reference Plan as updated from time-to-time, approval of yearly ONFA budgets including investment related expenses, reviewing OPG's expected financial guarantee submission to the CNSC expected in 2017, including reviewing, monitoring, and seeking approval on any implications on a Provincial guarantee to the CNSC, as provided for under ONFA.
- Provide analysis and advice on nuclear supply, financing and cost recovery issues, including for nuclear refurbishments.
- Continue to monitor, review and support policy discussions on developing the Ring-of-Fire.
- Continue to work closely with staff at the MRIS and OCGC on approaches for managing the Province's investment in the Ontario venture capital sector. Support the CEO's role as Vice Chair of the OCGC Board.
- Provide analysis and due diligence related to Jobs and Prosperity Fund applications and relevant Eastern Ontario Development Fund and Southwestern Ontario Development Fund applications.
- Continue to support the government's asset optimization initiative of broadening the ownership of Hydro One by providing financial analysis and advice, and dedication of net revenue gains from these transactions to the Trillium Trust to support investments in infrastructure.
- Provide coordination and oversight of certain real estate asset optimization initiatives, such as, the divestment of OPG's head office properties, and Seaton and Lakeview lands.
- Lead implementation of the Trillium Trust to help support investments in transit, transportation and other priority infrastructure.

6. *Ensure the successful activation of OFA's decentralized Business Continuity Plan (BCP).*

Overview

The BCP remains in place and is updated as required to be successfully activated so staff can complete critical time-sensitive tasks in the event of a business disruption.

Implementation Plan

- Review and update the Corporate BCP Framework.
- Review and update Business Unit plans.
- Plan and conduct corporate-wide BCP test exercises.

- Review corporate BCP Command and Support Team membership.

Implementation of the above strategic directions will require regulatory compliance and reliable information technology.

RISK IDENTIFICATION AND ASSESSMENT

Summary Table

Accountability	Risk Assessment	
P Primary	L Low	H High
X Additional	M Medium	EH Extremely High

Risk Assessment Summary		Accountable Business Division						Risk Assessment		
		Capital Markets	Corporate & Electricity Finance	Finance and Treasury	Legal	Risk Control	Strategic Corporate Services	Likelihood	Impact	Overall Assessment
Strategic Risks	Strategic / Policy Risk	P	X			X		L	EH	H
	Meeting Stakeholder Expectations	P		X				M	EH	H
	Public Image	P		X				L	H	M
	Quality of Relationship with Stakeholders	P		X		X		L	H	M
Accountability / Governance	Governance, Information, and Regulatory Compliance	X		P	X			L	H	M
	Risk and Issue Management			X		P	X	L	EH	M
	Statutory Requirements are met				P			L	H	M
	Reliability of Financial Systems			P				L	H	M
Operational	An economic slowdown straining the fiscal plan, thus affecting the borrowing program	P						M	H	H
	Financial Market Risk	X				P		M	H	H
	Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt	P						L	EH	H
	Risk of credit rating downgrade	X				P		M	H	H
	Credit Risk	X				P		L	H	M
	Electricity Policy and Price Risk		P					M	M	M
	Operational, including systems, internal control, and reputation risks	X	X	X	X	X	P	L	H	M
	Service Providers (e.g. custodians, fiscal agents, banks, etc.)			P				L	M	L
	Low investment returns or inadequate investment controls on nuclear funds	P						M	H	H
	Default on Loans to Public Bodies		P					L	L	L
	Default on Guarantees under the ALGP		P					L	L	L
	Increased borrowing to fund loans to public bodies		P					L	L	L
	Government Cost Constraints			P				M	H	H
	Employee Fraud			P				L	M	L
Workforce	Human Resource Risk	X	X	P	X	X	X	M	EH	H
Information Technology and Infrastructure	Privacy and Security						P	L	M	L
	Business Continuity						P	L	H	M
	Procurement			X			P	M	M	M

Risk Identification, Assessment, Mitigation Strategies

The following section identifies potential risks that could impact the entire organization in its ability to successfully deliver its programs and activities on behalf of the Province.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: STRATEGIC RISK AREA: Strategic: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with those of the OPS). The risk that strategies and policies will fail to achieve required/targeted results. The risk of failing to provide value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.					
Strategic/ Policy Risk Primary Accountability: Capital Markets Division	Strategies and policies fail to achieve required results. Prime examples are failing to meet the borrowing requirements and failures in implementing core risk management strategies.	<u>LOW</u> Past experience indicates that the likelihood of major strategic failures is relatively <u>low</u> as they cannot always be eliminated. There are elements of borrowing and risk management which are outside the Province's control which can negatively impact required results. For example, financial conditions could result in higher interest costs or interest rate risk than anticipated or refinancing risk in future years may be much higher than desired if investor demand for longer term bonds is substantially reduced.	<u>EXTREMELY HIGH</u> The financial consequences of strategic failures in borrowing or risk management strategies and associated policies can be <u>extremely high</u> , and the annual Financing, Debt & Electricity Management Plan outlines strategies which attempt to address the challenges, including contingencies for unexpected events. In addition, management monitors major market and policy developments throughout the year very closely and will develop and implement new strategies and policies if conditions warrant. Even though the likelihood of major strategic failures is low, the impact remains extremely high resulting in an overall high risk assessment.	<u>HIGH</u>	Strategic plans and policies to mitigate strategic and policy risk are initially developed and implemented in a thorough manner as outlined in the OFA's annual Financing, Debt & Electricity Management Plan ("the Plan"). This includes an analysis of risk factors and contingency plans. The Plan is approved by the respective Boards (OFA and OEFC) and receives input from Board members. Market conditions and policy developments are monitored on a continual basis throughout the year to identify new and emerging developments which could impact strategic and/or policy risks. Existing control strategies are modified as required to mitigate adverse developments. Procedures are in place to ensure that staff are aware of relevant policies. Policy violations are rare, and a robust control framework exists to identify violations quickly. Most violations would not have a large enough impact to threaten achieving required strategic results.
Meeting stakeholder expectations	The risk that the OFA may fail to meet stakeholder expectations, including those of the Province and other public bodies.	<u>MEDIUM</u> There is a <u>medium</u> likelihood of failure to meet stakeholder expectations and performance	<u>EXTREMELY HIGH</u> Given that the impact of not meeting stakeholder expectations can be <u>extremely high</u> , combined with a	<u>HIGH</u>	An analysis of risk factors and contingencies is included in the OFA's annual Financing, Debt & Electricity Management Plan. This analysis is revisited throughout the year.

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Primary Accountability: Capital Markets Division	Stakeholder expectations include strategic/policy risk factors as well as the risk of failing to meet performance benchmarks.	benchmarks. Market factors tend to be relatively unpredictable and many factors are out of OFA's control. The current environment of expanding service requirements and constrained resources adds some risk; however, it is expected to be minimal. Based on past experience, it is expected that most stakeholder expectations will be met.	medium likelihood the net result is a high risk assessment. The impact of a one percentage point increase in yields was estimated to be \$350 million for 2016–17. Although the OFA has been able to extend the borrowing term in recent years, interest rate risk will remain elevated for several years. Continuous communication with the Deputy Minister and Minister ensures that expectations for the Province are clearly understood. Commitments are made after thorough and careful analysis to ensure that resources and expertise are in place to meet those expectations. Close and continuous communication and meetings with relevant public bodies (e.g. Agencies) who use our services ensures that expectations and service requirements are clearly understood. In addition, formal service level agreements (e.g. investment management agreements) have been developed which clearly outline the services and benchmark performance standards.		Given the relatively unpredictable nature of market factors, ongoing monitoring of market and policy factors provides a level of risk mitigation. Continuous dialogue with stakeholders and regular reporting are also useful in keeping abreast of both expectations and performance. Emerging issues which may affect expectations are identified and are regularly reported to the Deputy/Chair as well as the Board (OFA and OEFC). This provides greater assurance that expectations will be met or managed through approved mitigation strategies. Meeting performance benchmarks for the Province and other public bodies also depends on adequate resources being available to maximize performance. This includes information systems services, and most importantly, staff. A highly educated and experienced workforce provides a higher likelihood that stakeholder expectations will be met. The OFA works to attract and retain highly qualified staff.
Public image Primary Accountability:	The risk that the OFA may damage its reputation with stakeholders and third party service providers.	<u>LOW</u> The likelihood of reputational risk to the OFA is low.	<u>HIGH</u> The impact of image problems can be high which combined with a low	<u>MEDIUM</u>	Public image risk is mitigated through a host of strategies: i) a strong policy framework to provide greater information to staff to make them aware of potential public image problems; ii) strong internal controls to reduce the risk of policy violations and

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Capital Markets Division		There are extensive policies to govern staff conduct including, with respect to conflicts of interest, procurement and workplace harassment. In addition, procedures are in place to ensure that staff are aware of all policies. There are also regular reporting requirements and internal controls to reduce the potential for policy violations. Dealings with the press are handled through official MOF communication staff and investor and other stakeholder information is handled with extreme care. Accordingly, the likelihood of reputational risk problems with stakeholders and service providers is low , although mistakes can happen and there are certain factors which the OFA cannot control.	likelihood results in an overall medium risk assessment.		adverse information releases; iii) public communication protocols to reduce the risk of incorrect and damaging information releases; iv) an investor relations program which is responsive to investor needs and responds to investor requests for information promptly; v) ongoing dialogue with dealers to keep abreast of information in the marketplace relating to both Ontario and the OFA; and vi) a management structure and culture which promotes security of information and extreme care in disclosing information in a public forum. Strategies iii-v involve constant communication with external stakeholders. This feedback loop provides the OFA with a method of assessing the organization's public image. The OFA has a comprehensive procurement policy that ensures that its suppliers and service providers are selected in a fair manner. When appropriate, the OFA requires that service providers obtain security clearance. OFA contracts with service providers address confidentiality and contract precedents generally require approval before a contractor may use its association with the OFA for any purpose. All substantive contracts that Capital Markets enters into in the name of the OFA must be reviewed by the OFA Legal Branch. All substantive contracts that Capital Markets enters into in the name of the Province, must be reviewed by MOF Legal.
Quality of relationship with stakeholders	The risk that the OFA's stakeholder relationships are poorly managed.	<u>LOW</u> The likelihood of failure managing OFA's stakeholder relationships is	<u>HIGH</u> The quality of the business relationships with stakeholders that the OFA is	<u>MEDIUM</u>	The OFA provides relevant, non-confidential information to investors in a fair and transparent manner, including information pertaining to the Budget and quarterly finances. Confidential information is handled in a manner consistent with laws and regulations, such as the <i>Public</i>

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Primary Accountability: Capital Markets Division		<u>low</u> as the OFA strives to deal with all of its stakeholders in a fair, transparent and responsive manner.	engaged in such as investors, credit rating agencies, dealers and employees can have a high impact on the success and cost of OFA activities. However, the likelihood of failure in these activities is relatively <u>low</u> which results in an overall medium risk assessment.		<i>Services Ontario Act, 2006</i> and the <i>Securities Act, 1990</i>. The annual Investor Relations Plan is developed each year with the goal of providing updates to investors, both domestic and international, on a regular basis through outreach and information products. Requests for information or meetings from investors are responded to very promptly. The quality of the Province's relationships with stakeholders is constantly monitored. Should the strategies in the annual Investor Relations Plan fail to achieve the desired relationship levels, the OFA can choose to engage additional financial dealers or more senior Ministry of Finance representatives to participate in its investor outreach activities. Dealers are utilized in a fair and objective manner for bond issues. A syndicate evaluation is used to rank domestic dealers objectively, and commissions for domestic bond issues are based on this annual evaluation. Dealers thus know the OFA's service priorities and understand their bond issue allocations for the year. International issues also utilize dealers based on their level of service and strengths they bring to particular markets and issuance opportunities. The OFA continuously communicates with its dealers and also has regular meetings with them, and thus relationship issues tend to be dealt with quickly. Given the high importance of Ontario's credit ratings to its borrowing program, the OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to requests for information, and facilitates participation of more specialized or senior government officials as required.

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Risk Category: ACCOUNTABILITY / GOVERNANCE Governance/ Accountability/ Organizational Risk: Risk that the organizational structure, accountabilities or responsibilities are not defined, designed, communicated or implemented to meet the organization's objectives, and/or that culture and management commitments do not support the formal structures. Risk of conflict of interest for board members. Inadequate ethics / codes of conduct. Inadequate definitions of roles and responsibilities. Risk of failure to comply with administrative requirements, such as directives. Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, Memorandum of Understanding or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.					
Governance, Information and Regulatory Compliance Primary Accountability: Finance and Treasury Division	The risk that oversight and governance responsibilities are not clearly defined; the risk that internal and external information produced or used is incomplete, out-of-date, inaccurate, irrelevant or inappropriately disclosed.	<u>LOW</u> The likelihood of failing in this area is <u>low</u>. Various policies and procedures define roles and responsibilities required for effective governance, including oversight by the OFA Board, chaired by the Deputy Minister of Finance, and largely comprised of independent, external members; and reporting requirements to the Minister of Finance. Furthermore, the audits by Internal Audit Division that cycle over all major functions of the OFA include a review of the associated policies and procedures and to date no material gaps have been identified. All audit recommendations are presented to the OFA ARMC and addressed within reasonable timeframes.	<u>HIGH</u> The impact of failing in this area is <u>high</u>; however, combined with the low likelihood of this happening results in a medium risk assessment	<u>MEDIUM</u>	Regular and special meetings of the OFA Board and its Committees, comprised of the Audit and Risk Management Committee (ARMC), Human Resources and Governance Committee (HRGC) and the ONFA Investment Committees (ONFA IC). The Deputy Minister of Finance is, pursuant to CIPA, the Chair of the OFA Board, which establishes a clear governance framework for OFA management and accountability to the Minister of Finance. The OFA uses secure communication procedures with internal and external parties; it also undertakes effective oversight of service providers, reconciliation processes, stringent disclosure policies, staff learning and development, and timely filing of regulatory reports.

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Risk and issue management Primary Accountability: Risk Control Division Secondary Accountability: Finance and Treasury Division	The risk that the OFA may not effectively manage and mitigate financial risks including fraud risk.	<u>LOW</u> A review process established at the OFA that includes daily compliance monitoring, division of responsibilities, and a highly-developed and rehearsed response plan for emergencies results in a <u>low</u> likelihood.	<u>EXTREMELY HIGH</u> The OFA is a major participant in capital markets and has extensive dealings with banks on behalf of the Ontario government. As a result, the potential impact for errors and omissions is <u>extremely high given the associated high dollar value.</u> The extensive mitigation strategies employed by the OFA however, reduce the overall assessed risk to Medium.	<u>MEDIUM</u>	Financial risks associated with the OFA capital market activities are managed through the OFA risk management framework, which includes policies that are updated, reviewed by the Ontario Internal Audit Division and approved by the Board on an annual basis. Compliance with policies is monitored through a daily reporting cycle including where applicable on a real time basis, and credit risks are also monitored in real time. Fraud: Division of responsibilities between divisions to create a separate front, middle and back office for capital markets transactions and appropriate separation of duties and signing authorizations within divisions reduce risk of fraud. All staff is encouraged to report any wrongdoing at all times and senior management is asked to confirm quarterly whether they are aware of any wrongdoing. Issues management: In addition to a monthly Capital Markets update letter, the CEO also reports on any issues or concerns quarterly to the Board and has regular meetings with the Chair. Division Heads/Directors report quarterly to the Board on their area's progress in achieving the objectives identified under the Annual Business Plan. The OFA's financial statements are prepared and presented on a quarterly basis to the ARMC and the Board. They are also shared with senior staff of the Office of the Auditor General. The OFA provides the interest-on-debt, debt and derivative information that is presented in the Public Accounts of the Province. The numbers and the process including the

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					underlying internal controls are audited annually by the Office of the Auditor General. Up to now, no material issues have been identified as part of this audit. OFA prepares issues notes, and feeds into the Ministry's communications branch for issues management and to address contentious issues. The Ontario Internal Audit Division develops a three year audit plan for the OFA that is updated annually. Audits under this plan, as well as special reviews as and when required provide an overall comfort level. The ARMC conducts in camera sessions with internal audit, staff of the Office of the Auditor General and the OFA's Chief Financial and Risk Officer at each quarterly meeting during which they are free to candidly raise any concerns about overall risk and issues management issues at the OFA. To avoid financial risk resulting from an inability to function during an emergency, the OFA has a highly-developed and rehearsed response plan for emergencies, addressing key risks such as fire, terrorist attack, pandemic or other threat. The work of the OFA can be carried out with all staff working from home. The OFA also maintains a collocate site at a remote location that houses a continuously available, mirrored IT infrastructure. Staff are subject to randomly declared, OFA-wide, work-from-home drills at least annually. OIAD reviews and comments on business continuity test results.

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Statutory requirements are met Primary Accountability: Legal Division	Risk of non-compliance with statutory requirements	<u>LOW</u> The likelihood of non-compliance is considered <u>low</u> because OFA staff have experience and awareness regarding legal compliance in relation to the performance of their jobs. While regulation in some areas (such as in capital markets and the banking and payment card industry) is complex and continues to evolve, program areas have ready access to legal advice.	<u>HIGH</u> Impact is considered high since failure to comply with a statutory requirement could negatively affect the reputation of the OFA and the Government. Also, violations relating to capital markets operations could have serious financial implications. Combined with a <u>low</u> likelihood, the resulting overall risk assessment is medium.	<u>MEDIUM</u>	Currently, the OFA and Ministry of Finance Legal Branches advise of statutory requirements and changes affecting OFA operations and also are available to advise on steps to effectively address any non-compliance. Information on legal requirements relating to Public Servants is distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO and the Board of Directors. CEO/Board direct remedial action (which may include learning and development). Education is encouraged and Divisions budget for necessary learning.
Reliability of financial systems Primary Accountability: Finance and Treasury Division	The risk that the OFA's financial information and reporting system is not reliable or fails to meet quality standards.	<u>LOW</u> The review process that the OFA has established including audits by the Internal Audit Division and the Office of Auditor General of Ontario ensures that the likelihood of occurrence is <u>low</u> .	<u>HIGH</u> While the impact of less than reliable financial information is indeed <u>high</u> , the low likelihood of this happening results in an overall medium risk assessment.	<u>MEDIUM</u>	The OFA has well-established processes and procedures for monitoring and reporting on its financial performance to its ARMC and Board of Directors and to the ministry as well as the Office of the Treasury Board. OFA financials are prepared on a quarterly basis for discussion, and shared with the staff of the Office of the Auditor General and approval by the ARMC and Board of Directors. In addition the OFA financials are audited annually by the Office of the Auditor General who has provided unqualified opinions on all past financials. Staff of the Office of the Auditor General also audit, on an annual basis, the OFA's work on the Province's debt and interest on debt. This annual audit includes reviewing the underlying systems and internal controls. Up to now, no material issues have been identified and the OFA has implemented all recommendations arising from this audit. Changes to accounting pronouncements are also addressed during the quarterly discussions with the ARMC and

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
					the Office of the Auditor General. Annual budgets and audited financials are submitted to the Ministry as per TBS requirements. A further level of assurance exists as a result of the work carried out by the Ontario Internal Audit Division (OIAD). OIAD develops a 3 year audit plan with consultation from Division heads and all finding and recommendations are presented to the Audit and Risk Management Committee of the OFA Board. The OFA's progress in implementing recommendations are also presented on a quarterly basis to the same committee.
Debt and Risk Management Risk Category: OPERATIONAL RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.					
An economic slowdown straining the fiscal plan, thus affecting the borrowing program. Primary Accountability: Capital Markets Division	Fiscal strain stemming from a significant economic slowdown would likely result in higher borrowing requirements. This could be experienced as much larger borrowing requirements over a fairly short time horizon or consistently higher requirements over a longer time period.	<u>MEDIUM</u> The possibility of a major downturn in economic activity or longer term slow economic growth is given a <u>medium</u> likelihood due the historical frequency of such events. The last recession was approximately eight years ago. Since then, the Ontario economy has had only modest growth in recent years, with MOF projections showing a continued trend of low to medium economic growth.	<u>HIGH</u> The impact on the borrowing program will depend in part on the extent of the economic slowdown. A large economic slowdown, perhaps a recession, would have a large impact on the borrowing program over a couple of years, but persistent sub-par growth would also be painful. The impact of a one percentage point change in nominal GDP was estimated to be \$890 million for 2016-17. The world economy is currently highly reliant on U.S. economic growth and would be at risk if that fades. Given that Ontario's borrowing requirements are already quite large, the impact	<u>HIGH</u>	The Capital Markets Division is in constant contact with external economic experts who provide forecasts and analysis on the Province's economy as well as other major economies around the globe (including Canada's). In addition, the OFA is provided with a wealth of forecasts and economic insight from the Ministry of Finance. The OFA undertakes its borrowing strategically to reduce the effects of forecasted events and also looks to pre-borrowing to the extent possible. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program.

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			would likely be high, meaning that interest costs could increase appreciably. One result could be a reduced average term of borrowing to reduce borrowing costs or respond to reduced demand for longer term debt which would increase refinancing and floating rate risk. There could also be pressure to increase foreign exchange or counterparty credit exposures in order to reduce costs. The overall assessment of this risk is high .		
Financial market risk Primary Accountability: Risk Control Division	Higher-than- forecast borrowing requirement and/or interest rates, resulting in higher annual interest-on-debt (IOD) charges. Financial loss attributable to changes in interest rates, credit spreads, foreign exchange and liquidity risk.	<u>MEDIUM</u> Higher-than- forecast borrowing requirement and/or interest rates is given a <u>medium</u> likelihood due the historical frequency of interest rate changes, and the current medium-term forecast of provincial borrowing requirements.	<u>HIGH</u> The size of the province's annual borrowing requirement creates a <u>high</u> degree of sensitivity to market conditions, especially interest rates. IOD has generally produced cost savings compared to budget forecasts due to cost effective debt management, as well as interest rates that have been trending down for about 35 years. This experience may not be expected to continue, so financial market risk is assessed as being high. In the <i>2016 Budget</i> , it was estimated that a one percentage point increase in interest rates would have impacted IOD by approximately \$350 million for 2016–17.	<u>HIGH</u>	Sound and effective risk management infrastructure, including policies, procedures, risk management reporting, and Information Technology (IT) systems. The OFA uses a conservative risk limited approach to forecasting interest on debt expenses. This is achieved by using interest rate forecasts provided by the Office of Economic Policy for the two out years and a 15 year interest rate average for the third out year. Accurately measure and assess portfolio exposures and ensure compliance with the related limits as approved by the Board, including foreign exchange and net interest rate resetting exposure limits and IOD. Maximum foreign exchange exposure of five per cent. Maximum net interest rate resetting exposure of 35 per cent. Maximum loss policy on IOD of three per cent of budgeted IOD. The OFA has reduced the sensitivity of IOD to interest rates by extending the term of recent borrowings. It also maintains

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					exposure to foreign currency at levels far below the five per cent limit. While the policy limit for net interest rate resetting exposure is 35 per cent, the annual debt management plan sets out ranges that are usually considerably lower thus further limiting the risk.
Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt Primary Accountability: Capital Markets Division	Unable to achieve the borrowing program target of a particular fiscal year.	<u>LOW</u> The likelihood of not completing the borrowing program is low and would be based on a major market disruption or a major adverse credit situation at the Province. Both events are considered to have a low likelihood.	<u>EXTREMELY HIGH</u> The consequences of a major market disruption or a major adverse credit situation at the Province would obviously be extremely high , and thus overall risk is high.	<u>HIGH</u>	The OFA continually monitors demand for its bonds and has a strong relationship with its financial dealers. The OFA is aware, through external forecasts, Ministry of Finance advice, and its own analysis of bond markets, of the faith investors place in its bond offerings. The Capital Markets Division employs financial strategies, to reduce the effects of forecasted events. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program. The OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to request for information, and facilitates participation of more specialized or senior government officials as required.
Risk of credit rating downgrade	Risk that a credit rating downgrade from a major credit rating agency results	<u>MEDIUM</u>	<u>HIGH</u>	<u>HIGH</u>	Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of

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Primary Accountability: Risk Control Division	in increased costs to borrowing program and/or reduced market access.	The likelihood of a credit rating downgrade is medium . The OFA has regular meetings with the agencies, and is regularly advised of rating agency concerns. Based on regular meetings with agencies and outperformance of its fiscal targets in recent years, the risk of a credit downgrade is not considered to be high, although debt levels remain high.	A credit rating downgrade, could reduce the pool of investors able to buy Government of Ontario bonds. As a worst-case, investors might be forced to sell, creating competition for our primary distribution, therefore resulting in a high impact for the Province. Note: This risk is assessed as high. The best mitigating strategy, reducing the size of the provincial deficit, is not a variable that is under the control of the OFA.		the Province's financial status priorities, and initiatives. Diversify funding sources. Increase investor relations activities. Ensure that decision-makers at Queen's Park continue to be mindful of the serious consequences of the Province not meeting or beating its deficit targets.
Credit Risk Primary Accountability: Risk Control Division	Risk that the Province incurs a significant loss because a counterparty does not meet, or defaults, on its obligations to the Province.	<u>LOW</u> The size of Ontario's borrowing program requires the OFA to be open to borrowing opportunities in a variety of currencies. As the OFA has opted to keep currency risk at very low levels, this requires that hedging transactions be entered into with bank counterparties, creating credit risk. A bank default is considered to be a low probability event.	<u>HIGH</u> A bank default would be a high impact event, however, the assessment is overall medium as a result of the OFA's implementation of a comprehensive mitigation strategy including collateralized swap agreement and limiting transaction to highly rated counterparties.	<u>MEDIUM</u>	Ensure compliance with a sound and effective credit risk management infrastructure, including: an overarching credit risk policy that is reviewed and approved by the OFA Board on an annual basis, transacting with highly rated counterparties, limiting credit exposure concentration, and ongoing monitoring of key indicators of credit and market conditions. The Province will continue to enter into collateralized swap agreements with more of its swap counterparties to limit its credit risk. Such agreements allow the Province to cap its credit risk by requiring counterparties to post collateral when marked-to-market exposures exceed specific thresholds.
Electricity related policy,	Government policy, accounting or regulatory decisions, electricity sector	<u>MEDIUM</u>	<u>MEDIUM</u>	<u>MEDIUM</u>	Provide financial analysis and advice to senior Ministry of Finance officials and government on electricity policy options and initiatives, and maintain

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
price and other risk Primary Accountability: Corporate & Electricity Finance Division	structure, and potential electricity price and market events may have an impact on the financial performance of the Province, including reduced payments to the OEFC from, for example, the Province, Ontario Hydro successor companies and municipal electricity utilities, or price mitigation measures such as the new Ontario Rebate for Electricity Consumers, thus affecting the borrowing program.	The likelihood of this risk is deemed medium . The fiscal contributions of the electricity sector can fluctuate for many reasons, including the performance of OPG and Hydro One vs forecast, policy decisions including the timing of Hydro One share sales, regulatory decisions and volatility in electricity demand/prices. Fiscal expenses are largely determined by policy decisions. Volatility and policy change impacts can be both upward and/or downward.	While the electricity sector has a significant fiscal impact, it is not large compared to the total size of the Provincial Budget. In addition, certain fluctuations are within the government's control and borrowing issues should be manageable within the larger envelope of the Province's total borrowing program. Therefore the impact is rated as medium , leading to an overall medium assessment.		relationships and work with other ministries and agencies. Monthly meetings, and as needed, with OPG to monitor and report on financial performance and updated projections versus plan, as well as monitoring of policy, accounting and regulatory issues that may have fiscal implications upon consolidation of OPG and Hydro One in Public Accounts.
Operational, including systems, internal control and reputation risks Primary Accountability: Strategic Corporate Services Division	Risk from inadequate or failed internal processes and IT systems or from external events. The possibility that internal controls may not safeguard assets or prevent errors or fraud. The risk that negative publicity about the OFA's business practices may lead to financial or reputation costs or litigation.	<u>LOW</u> The likelihood of this risk is deemed low . The OFA's mandate and operations in a capital markets environment requires the extensive use of information technology. The fact that the OFA's mandate has also increased over the past years with no corresponding increase in staff resources has also resulted in a dependence on information technology. While this has allowed for efficiencies, this dependence also gives rise to the risk that IT systems may be poorly specified, operate incorrectly, or that the use of combinations of systems may have unintended consequences.	<u>HIGH</u> The financial impact of such risks could be compounded by harm to the OFA's reputation, therefore its impact is deemed high . This risk, reduced by the mitigating strategy, is assessed as medium.	<u>MEDIUM</u>	Maintain state-of-the-art IT systems, conduct daily back up, frequent update and testing of BCP involving remote desktop and co-locate. Appropriate documentation and timely reporting; update financial controls based on best practices; continued involvement of Internal Audit in developing new functions and reviewing existing financial policies; ensure oversight of service providers. As part of its annual audit, the Office of the Auditor General issues recommendations on areas where they feel internal controls can be tightened. Monitor print media to identify OFA-specific issues to protect OFA's reputation. Centralized external communication strategy. Early involvement of legal counsel.

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Service providers (e.g. custodians, fiscal agents, banks etc.) Primary Accountability: Finance and Treasury Division	Poor service from existing providers and/or lack of qualified service providers.	<u>LOW</u> The likelihood of this risk is deemed <u>low</u> . Service providers are selected through a rigorous competitive process that includes the submission of proposals covering performance standards and measures, followed by consistent internal monitoring of service quality.	<u>MEDIUM</u> Consistent internal monitoring ensures a <u>medium</u> impact for a low overall risk assessment.	<u>LOW</u>	All existing service providers provide services under a formal contract. Continue to implement and monitor service level agreements with existing providers. Continue to comply with selection criteria and contract management requirements in OFA procurement policy
Low investment returns or inadequate investment controls on nuclear funds. Primary Accountability: Capital Markets Division	If funds are not properly invested or general financial market returns are low or negative, substantial contributions could be required by one or both of the Province and OPG. In addition, the Province's reputation may be damaged if controls or investment policies deviate from industry best practices.	<u>MEDIUM</u> Prolonged poorer than targeted performance of the nuclear funds over the medium-term is given a <u>medium</u> likelihood. The nuclear funds have a very long time horizon and would be expected to have poor returns over some time periods but are required to earn real returns in excess of 3.25 per cent in the long run. The funds have exceeded the 3.25 per cent annualised real return benchmark on average since their inception in 2003, but there is some risk that cumulative average annualised returns may be inadequate in future or that the costs of decommissioning and used fuel disposal could well exceed current projections. Returns will be driven to a large extent by asset allocation and general investment returns in financial	<u>HIGH</u> The financial impact of poor performance could be quite substantial and is rated <u>high</u> given the size of the funds, and could result in substantial unexpected contributions from one or both of the Province and OPG. The overall risk assessment is high. Given the current size of the funds, a one percentage point decline in annual performance would equate to \$170 million in reduced value for the funds, which could affect future funding requirements. Such loss, however, will not translate dollar-to-dollar on the Province's annual statement of operations at consolidation, as the Province's revenue recognition related to the nuclear funds is based on historical cost, not fair value, and some of the	<u>HIGH</u>	The funds are diversified across asset classes and managers to reduce overall risk. Further diversification is being achieved as the funds move into alternative investments. The funds are also long-lived, and can be adjusted and returns recover over the long term, which result in the recovery of past Provincial contributions to cover investment return shortfalls, if any. In addition, a Statement of Investment Policies and Procedures (SIPP) and Statement of Investment Risk Policies (SIRP) are in place which outline basic policies which to a large extent address many of the risk factors. An extensive asset-liability study is undertaken every five years to attempt to optimize the asset allocation to meet the funds objectives to meet the cost requirements. Significant progress has been made in developing a comprehensive risk management framework which is expected to be implemented in 2017. In addition, the funds are closely monitored by staff and up to the respective Board levels by both the OFA and OPG including, for the OFA, by the ONFA IC. Unfortunately, the risk of sub-par returns cannot be entirely eliminated as it

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
		markets -- e.g., prolonged poor performance in equity returns or a general decline in the financial markets could be a driver of poor performance. Resourcing for the nuclear funds is relatively tight, although it is considered adequate. The likelihood of inadequate controls on the funds is assessed to be low.	impact is also mitigated by OPG's regulatory accounts for the funds related to the Bruce stations, under the Province's current accounting standards. In addition, the reputational impact of underperformance would also be high. The overall assessment of inadequate controls is high.		will be largely driven by the future market developments. Decommissioning and waste disposal costs and liability risk surprises are largely mitigated by the quinquennial ONFA Reference Plan update. The contribution schedules can be adjusted following a reference plan update to allow for returns in the funds to help cover liability revisions and past target rate of return shortfalls. The funds are audited on a regular basis which reduces the potential for fraud or other control problems. Staff monitor the funds very closely and are looking for irregularities. In addition, the funds are monitored up to the respective Board levels by both the OFA and OPG. The internal auditors of both OPG and the OFA are also proactive in examining control issues. The funds rely largely on external managers, and efforts are made to select highly professional managers who follow investment industry best practices.
Default on Loans to Public Bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of default by public bodies on OFA loans	<u>LOW</u> Although the OFA has restructured or provided a loan deferral in the past, this has been relatively rare, so an "unlikely" scenario (less than 20 per cent probability) is reasonable, and its likelihood is rated as low .	<u>LOW</u> Impact of a default may be "noticeable" and public, but loan write-downs to public bodies that are consolidated on the Province's financial statements would likely not create a fiscal impact, and, therefore, its impact is deemed low resulting in an overall low risk assessment.	<u>LOW</u>	Prior due diligence and analysis of debt repayment ability of public bodies on OFA loans. Ensure grant intercept mechanisms continue to be included in loan agreements. Early detection through loan monitoring by line ministry and restructuring of loan repayment terms.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Default on Guarantees under the Aboriginal Loan Guarantee Program (ALGP) Primary Accountability: Corporate & Electricity Finance Division	In the event of a call on an ALGP guarantee arising from a default on the underlying loan, the fiscal impact would be recorded in the fiscal year in which the claim was paid.	<u>LOW</u> Debt service reserve account, ongoing monitoring, bank account controls are in place to mitigate risk of default.	<u>LOW</u> Any default would have a negative fiscal impact on the Province in the year in which the Province paid a claim pursuant to the guarantee. As guarantees are limited to a maximum of \$50 million (unless Treasury Board approves an exception), and the average is smaller, the impact is small in the Provincial context. However, there may be a reputational impact for the Province/OFA as well.	<u>LOW</u>	Ongoing monitoring of approved loan guarantees, including project performance and compliance with loan and guarantee agreements.
Increased borrowing to fund loans to public bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of unexpected loans that were not included in the OFA Annual Borrowing and On-Lending Plan.	<u>LOW</u> Over the past five years, only one unanticipated non-school board loan caused the OFA to breach its loan contingency reserve. An “unlikely” rating of less than 20 per cent probability of occurrence is, therefore, prudent, resulting in a <u>low</u> likelihood.	<u>LOW</u> In the overall borrowing plan, any unexpected loans would likely not have a “noticeable” effect, as most incremental borrowing is not material in the context of the whole borrowing program and therefore can usually be accommodated. This results in a <u>low</u> impact and a low overall risk assessment.	<u>LOW</u>	Ensure there exists an unassigned contingency equal to 10 per cent of forecasted loans to public bodies. Push off less urgent loans for execution in the following fiscal year. For OLG and LCBO, request business updates from Regulatory Agency Oversight Division (RAOD) to identify potential borrowing requirements (e.g. for site expansion); include estimates in Borrowing and On-lending Plan. Where a policy decision is taken requiring the OFA to provide funding for a strategic project, facilitate private sector financing, especially if interest cost savings are only deemed to be minimal.
Government cost constraints	Cost constraints may limit the OFA’s ability to provide services in a timely manner.	<u>MEDIUM</u> While good budgeting process and budget to actual comparison exists,	<u>HIGH</u> If budgetary constraints are severe enough the delivery of core services will	<u>HIGH</u>	Timely budget preparation in accordance with PRRT requirements. The budget preparation process is aimed at allocating resources according to priorities.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Finance and Treasury Division		the OFA is not insulated against budgetary constraints. The likelihood is deemed <u>medium</u> .	be impacted justifying a <u>high</u> impact and high overall risk assessment.		Detailed planning and monitoring to meet priorities within cost constrained environment. Comparison on a quarterly basis between budget and actual to ensure that priorities are being met within approved expenditures. Effective financial management on a year by year basis that ensures minimal variances between budget and actual. The OFA also retains its surplus which can act as a source of funds to meet non salary related expenses upon approval from the Ministry of Finance.
Risk Category: WORKFORCE					
RISK AREA: Workforce: Operational Workforce Risks.					
Employee Fraud Primary Accountability: Finance and Treasury Division	Risk that losses will be incurred because an employee is dishonest.	<u>LOW</u> The likelihood is <u>low</u> due to stringent internal controls and systems that cannot be easily circumvented.	<u>MEDIUM</u> The impact is deemed to be <u>medium</u> resulting in an overall low risk assessment.	<u>LOW</u>	Continue to communicate code of values and measures for disclosing wrongdoing to OFA staff. Strong system of internal controls, including segregation of duties, which are regularly reviewed by internal auditors as well as the Office of the Auditor General. While no material issues have been identified to date from these audits that essentially cover the full fiscal year, all audit recommendations have been implemented. Detailed and timely exception reporting with managerial oversight.
Human Resource Risk Primary Accountability:	Risk that highly trained and specialized staff will not be available due to resignations, retirements, turnover, inability to hire, lack of skills, illness, etc.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The issue has gained traction due to the disparity between pay scales in other agencies and pension funds	<u>EXTREMELY HIGH</u> The impact is deemed <u>extremely high</u> resulting in an overall high risk assessment.	<u>HIGH</u>	Hire qualified staff; develop and implement staff retention strategies with assistance from the OFA Board and Human Resources Committee, provide support and training, where feasible provide competitive salary and benefits, foster a good and efficient working environment and a culture that

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Each Hiring Division, with support from the Strategic Corporate Services Division		compared to their OFA counterparts. As a result, overall, the pool of applicants to positions at the OFA has diminished over the past few years. Although most positions have adequate backup and succession planning, there are some areas within the OFA that are tightly staffed and some positions are highly specialized which creates vulnerability. In addition, compensation constraints have limited the ability to adequately replace staff externally at comparable experience and skill levels.			recognizes and rewards merit, set out performance plans and monitor, recognize and value achievements, good communications and teamwork, and implement employee engagement strategies. Offer results-based pay for performance, and a comprehensive and flexible benefits package. Maintain unique compensation structure for A/XOFA positions. At the end of 2016, consistent with OPS compensation, salary increases occurred for certain OFA employees, and the OPS has announced a restructuring of its non-bargaining and management compensation to be implemented over a four-year period. It is too early to tell whether these changes are sufficient to reverse the recent trend of disappointing responses to positions advertised externally and an inability to attract qualified candidates for positions in the A/XOFA classification and others including those requiring accounting designations and specialized formal education in financial engineering and information technology or investment and corporate finance experience.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: INFORMATION TECHNOLOGY & INFRASTRUCTURE RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.					
Privacy and security Primary Accountability: Strategic Corporate Services Division	Risk related to the agency's handling of sensitive/confidential information on behalf of the government Potential compromise of confidential information or personal data through identity theft, or unauthorized electronic or physical access of information	<u>LOW</u> The risk is considered <u>low</u> , as management ensures that staff are cognizant of the importance of information security.	<u>MEDIUM</u> The impact is deemed <u>medium</u> , resulting in an overall low risk assessment	<u>LOW</u>	Access to all electronic data requires authentication. Security of electronic and hard copy information is provided by enterprise IT perimeter security solutions, key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a regular basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply. New staff who work on the government's Budget are provided with training on the importance of budget security.
Business continuity Primary Accountability: Strategic Corporate Services Division	Risk that the processes in place to ensure that critical I&IT systems are not available for operation to support business requirements (disaster recovery & business continuity planning)	<u>LOW</u> The risk is considered <u>low</u> , as the OFA has a comprehensive Business Continuity Plan (BCP) which is regularly tested.	<u>HIGH</u> The consequences for the OFA not being able to carry out its business, even for one day, would be severe, therefore its impact is deemed <u>high</u> . As a result, the OFA maintains a twin of its IT infrastructure in a separate disaster recovery location (DR Site), which reduces the overall assessed risk to medium.	<u>MEDIUM</u>	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's DR Site. Critical production systems are routinely run out of the DR Site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes mobile devices and remote access services. Periodic drills are held to ensure that staff are able to use the OFA's BCP infrastructure in a productive manner.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Procurement Primary Accountability: Strategic Corporate Services Division	The procurement process has intensified in the past year causing significant project delays. The workload required to manage the process has not been offset with additional resources, annual budgeting has been impacted as projects timelines are difficult to determine and the organization is challenged to keep pace with changes in technology.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The OFA operates within the government procurement framework, adapted to its own unique requirements. The requirement to adhere to complex public sector procurement rules, as set out in the OFA's Procurement Policy has the potential of slowing down urgently needed IT infrastructure, creating a degree of risk. Some streamlining of the process has been carried out, reducing the assessed risk to medium.	<u>MEDIUM</u> The impact is deemed <u>medium</u> , resulting in a medium overall risk assessment	MEDIUM	Standardized approval forms and RFX (Request for Information, Proposal or Quotation) precedent templates streamline the procurement process. Establishing Service Level Agreements within the organization to ensure consistent timelines for document review and approvals will help ensure project deadlines are achieved. When project and procurement plans are hindered by lengthy standard procurement process, priorities will be revisited. In some circumstances, CEO approval of an exemption or a different process may be requested, if available.

ENVIRONMENTAL SCAN

Economic Conditions

The economic outlook for Ontario as described below is based on the average private sector view as of January 2017. As with all projections, there are positive and negative risks to the outlook. The most significant immediate risks to the outlook are rising interest rates and uncertainty regarding future U.S. economic policy. For business planning purposes, the OFA recognizes that it may confront increased demands to provide financing and other services.

Ontario's economy continues to grow in an uncertain global economic environment. Ontario real GDP increased 2.5 per cent in 2015. Private-sector forecasters, on average, estimate Ontario real GDP will grow by 2.6 per cent in 2016, 2.3 per cent in 2017, 2.2 per cent in 2018 and 2.0 per cent in 2019. The economic outlook is influenced by external factors, such as U.S. economic growth, oil prices and the Canadian dollar. Steady growth in the U.S. economy, along with the ongoing impacts of a more competitive Canadian dollar and low oil prices, continues to support Ontario's economic growth. Ontario's economy is expected to strengthen as growth broadens across major sectors of the economy, including household spending and exports. The recent increase in interest rates and the uncertainty tied to U.S. trade policy represents a downside risk to the Ontario economic outlook.

The United States is Ontario's largest trading partner, accounting for 80 per cent of the Province's international merchandise exports in 2015. Economic growth in the U.S. strengthened to 2.6 per cent in 2015 after rising by 2.4 per cent in 2014. According to the January 2017 Blue Chip consensus outlook, the U.S. economy is expected to grow by 1.6 per cent in 2016, 2.3 per cent in 2017 and 2.4 per cent in 2018.

The price of WTI (West Texas Intermediate) crude oil fell by over 70 per cent from its June 2014 peak of \$108 US per barrel to below \$30 US per barrel in early 2016, a reflection of strong supply and weaker global demand. WTI oil prices averaged \$43 US per barrel in 2016, down from \$49 US per barrel in 2015. The recent agreement between the Organization of the Petroleum Exporting Countries (OPEC) and other oil producers to reduce output has led to a rise in the price of oil. The current private-sector forecast average for the WTI price of oil is \$54 US in 2017 – well below levels recorded over the 2010-14 period.

Sharply lower oil prices and diverging monetary policy between Canada and the United States contributed to a depreciation of the Canadian dollar to an average of 78.2 cents US in 2015, down from 90.5 cents US in 2014. The Canadian dollar declined further in 2016, averaging 75.4 cents US. On average, private-sector forecasters expect the Canadian dollar will average 74.5 cents US in 2017.

Ontario's housing market continued to strengthen in 2016 alongside solid increases in the number of households and incomes. Sales of existing homes and resale prices rose 9.4 per cent and 15 per cent, respectively in 2016. Ontario housing starts also increased in 2016. Private-sector economists expect a soft landing in the Ontario housing market. Home resales and prices are projected to stabilize over the next few years as gradually rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand.

There are risks surrounding the housing market outlook. Home price gains in Ontario have outstripped incomes in recent years, fuelling mortgage debt accumulation. As a result, affordability in Ontario's housing market has eroded. Despite historically low mortgage rates, monthly carrying costs are elevated relative to long-term trends. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable in the event of an adverse economic shock.

Financial Markets

Moderate economic growth and headline inflation still operating below the 2 per cent target has prompted the Bank of Canada to hold the target overnight rate at 0.5 per cent since mid-2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.

In the United States, the Federal Reserve raised rates at its December 2016 meeting, citing a strengthening labour market and rising inflation. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, monetary policy in the European Union remains highly accommodative. In January, the European Central Bank announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases."

In Canada, while long-term interest rates are expected to remain at historically low levels, they are projected to gradually rise over the next few years. The expected onset of interest rate hikes by the U.S. Federal Reserve combined with the result of the recent U.S. election has already put upward pressure on Canadian bond yields.

According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018.

The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Government Initiatives

Government policy developments and financial performance in Ontario's electricity sector, including OPG, Hydro One and municipal electricity utilities, may affect borrowing requirements through the cash flows to OEFC. In particular, the Province's ongoing effort to broaden ownership of Hydro One will result in large cash flow impacts for OEFC.

The OFA will continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program. The OFA will lead the implementation of the Trillium Trust, for dedicated net revenue gains from qualifying asset sales to help fund infrastructure investments across Ontario. The OFA will also provide financial support to the Ministry of Environment and Climate Change in respect of the government's Cap and Trade program, as well as in the establishment of a Greenhouse Gas Reduction Account and a climate change agency.

The OFA will also provide financial analysis and advice in support of the Province's commitment to unlock the value of designated assets, and will continue to work with Infrastructure Ontario and other areas of government on optimizing certain holdings in the Province's real estate portfolio, in particular, the sale of OPG headquarter properties, as well as Seaton and Lakeview lands.

Regulatory Compliance

The OFA will ensure that information required to be disclosed by the Province in its debt securities offerings related documents, periodic published reports (including the Ontario Budget, the quarterly finances, the Public Accounts of the Province of Ontario and the annual fall Economic Outlook and Fiscal

Review) and other disclosures filed or submitted under applicable securities legislation, rules and regulations in the United States, the United Kingdom, Luxembourg, Australia, Switzerland and Singapore is filed on time and otherwise in accordance with those requirements. Regulatory requirements will be monitored continually to ensure the Province has ongoing access to these markets.

PERFORMANCE MEASURES

1. Execute the Province's borrowing program

Objective	Performance Measure	Target
a. Complete the borrowing program while ensuring that the Province always has adequate liquidity.	Sufficient liquidity on hand at all times to ensure the Province can meet its financial obligations. Ensure borrowing is completed with minimal negative impact on the Province's reputation in the financial markets.	Borrowing program completed and cash requirements met on a timely basis.
b. Manage the borrowing program in a sound and cost-effective manner.	The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	Achieve a percentile ranking of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by the Ontario Internal Audit Division.
c. Ontario Savings Bonds (OSB) Program	Fund borrowing requirements at cost-effective rates for a broadly based retail program which allows individual investors in Ontario to participate in providing funding to the Province. OSBs reduce other borrowing requirements which, in turn, reduces pressure on new issue spreads.	Ensure the program is cost-effective in the context of a retail borrowing program. Maintain and review Service Level Agreement between OFA and Fiscal Agent on an annual basis.

2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook

Objective	Performance Measure	Target
a. Manage outstanding debt in a sound and cost-effective manner.	Dollar savings of debt management transactions on a realized and mark-to-market basis. This methodology utilizes a risk-budgeting approach adopted by some large pension plan investment managers.	Achieve first quartile performance relative to a risk budget. Results are validated by the Ontario Internal Audit Division.
b. Preservation of capital on money market investments.	Credit losses on liquid reserves and investment portfolio of funds managed for other government bodies.	No credit losses on any investments. Generate actual returns that are within ± 2 basis points of the

Objective	Performance Measure	Target
Manage liquid reserves in a sound and cost-effective manner.	The investment return on the portion of liquid reserves invested in Government of Canada Treasury bills and similar riskless instruments compared to an average 61-day portfolio benchmark. This benchmarking process is consistent with private sector industry practice. Maintain liquid reserve levels within a pre-determined range and provide an explanation to the Board of any deviations from that range.	61-day benchmark portfolio. Results are validated by the Ontario Internal Audit Division.
c. With OPG, prudently manage the Used Fuel and Decommissioning Segregated Funds' investments.	Ensure investment management is consistent with ONFA objectives.	Manage, monitor, and analyze the performance of the funds and the performance of investment managers. Continue refinement of investment strategies, risk management, policies and procedures. Meet the real return objective of 3.25 per cent, and exceed the market benchmark over the life of the funds.
d. Prudently manage funds for government bodies through the centralized/ segregated fund initiative.	Reduce investment costs. Ensure public bodies' funds are managed consistently with investment industry best practices.	Establish and continue to efficiently manage segregated funds with government public bodies that meet client requirements.
e. Minimize financial risk by ensuring risk exposures and program losses remain within approved exposure and loss limits.	Foreign exchange exposure. Net interest rate resetting exposure. Interest on debt losses as a percent of budgeted interest on debt. Credit exposures relative to approved policy limits.	Foreign exchange exposure not to be above five per cent of total debt. The 2016–17 Financing, Debt and Electricity Management Plan had an approved range of 0 per cent to 2.5 per cent in Foreign Exchange Exposure. Currently, the exposure of 0.3 per cent of debt. The 2017–18 Financing, Debt and Electricity Management Plan will have a recommended range subject to Board of Directors approval later in the year. Net interest rate resetting exposure not to be above 35 per cent of total debt. The 2016–17

Objective	Performance Measure	Target
		Financing, Debt and Electricity Management Plan had an approved range of 10.4 per cent to 14.4 per cent in Ontario's Gross Floating Rate exposure, with a target of 12.4 per cent. Interest Rate Resetting Exposure is expected to be 11.2 per cent as of March 31, 2017, with an expected range of 9.2 per cent to 13.2 per cent. A new range and target for Floating Rate and Interest Rate Resetting Exposure will be approved in the 2017–18 Financing, Debt and Electricity Management Plan. IOD losses not to exceed three per cent of budgeted Interest on Debt. Credit exposures to be kept within approved policy limits.
f. Use risk control policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies are kept current with industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments and risk management reporting are to be reviewed annually, and amendments or decisions not to amend are to be approved by the Board of Directors. Review limits on net interest rate resetting, foreign exchange and credit exposures, and credit concentration. Calculate and report exposures daily. Perform monthly stress testing on the Province's market and credit exposures.
g. Measure and report performance of the Province's borrowing, debt management, and investment programs.	Timeliness and accuracy of performance measurement and reporting.	Report on borrowing and debt management performance daily, and on the money market program performance monthly.

Objective	Performance Measure	Target
h. Evaluate the potential impact of stressed capital market conditions on OFA programs and IOD.	Conduct stress tests of the credit exposures, and IOD, and report the results as described in the risk management policies.	Stress testing is performed and reported on a monthly basis as described in the risk management policies.
i. Forecast interest on debt (IOD) for the Province and the OEFC.	Forecasts for the current year and medium-term are provided for the Budget, Fall Statement and quarterly finances.	IOD forecasts for the current year and medium-term to be provided for the Budget, Fall Statement and quarterly finances in a timely manner.
j. Assess the credit quality of municipalities and other approved entities applying for Infrastructure Ontario loans and provide credit risk advice to the Credit Review Committee (CRC)	Review loan applications and analyze reports. Attend CRC meetings to provide advice and vote on each application.	Provide an advisory role at Infrastructure Ontario's CRC meetings.
k. Contribute to key ministry documents, including the Budget, Fall Statement, and quarterly finances; and advise on financial implications of government initiatives.	Advise on potential financial/treasury implications of government initiatives on IOD, borrowing objectives, credit ratings, and financial markets' reactions. Complete the Borrowing and Debt Management chapter, including the Financing Table, in the Budget and Fall Statement.	Ensure potential financial/treasury implications are considered in developing government financial objectives, including meeting the requirements of the <i>Fiscal Transparency and Accountability Act</i>. Provide the Borrowing and Debt Management chapter in the Budget and Fall Statement; and update Ontario's Financing Program in Ontario Finances (quarterly).

3. Manage key financial relationships

Objective	Performance Measure	Target
a. Manage Ontario's relationships with domestic and international investors.	Maintain dialogues with investors, investment dealers and the international investment community by providing timely financial updates, including investor publications and securities filing documents.	Continue to monitor fixed income markets, economic conditions, and investors' interests and requirements to ensure road shows are effective for both the Province and its investors. Investor Relations to continue to track meeting activity with investors. Program benchmarks to include number of meetings with new accounts, effectiveness of communications material and website usage. Provide IR information products, including updates to the OFA website, on a timely basis. Meet ongoing disclosure and regulatory filing requirements with the SEC, UKLA, LuxSE, ASX, SIX Exchange Regulation and the SGX. Provide panelists or speakers at domestic and international industry conferences.
b. Manage Ontario's relationships with the credit rating agencies.	Ensure that credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these in their reports and decisions.	Following the release of the Budget, senior OFA and Ministry of Finance staff will meet with the rating agencies. Throughout the year, agencies will be kept informed of the government's ongoing economic and fiscal progress.
c. Manage Ontario's relationships with banks, financial services providers, and investment dealers.	Maintain relationships with banks, financial services providers, and investment dealers who provide the Province with banking, underwriting, custodial and fiscal agency services, thereby maintaining the Province's reputation and supporting its strategic direction to provide financial and cash management services. Maintain relationships with swap counterparties.	Ensure banking, underwriting, custodial and fiscal agency services provided to the OFA are cost-effective with minimal impact on IOD. Promote Toronto as a global financial centre. Ensure compliance with existing collateralized swap agreements in a timely and accurate manner on a daily basis. The OFA will endeavour to enter into collateralized swap agreements with more swap counterparties to limit credit risk.

4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services.

Objective	Performance Measure	Target
a. Arrange OPS-wide cost-effective banking services that minimize the Province's expenditures.	Acquire cost-effective banking products and services to support government ministries' program delivery, Crown agencies' banking activities and OFA's debt and investment management activities through the government's tendering process.	Issue, award and implement tenders for banking and financial services to ensure service continuity and program area needs are met. Monitor vendors' post-implementation performance. Work with central agencies, ministry program areas, and financial service providers to increase take up of existing electronic payment mechanisms and identify industry trends and new banking technology, which can be leveraged to reduce costs and improve service delivery and back-office processes. Ensure continued compliance with mandatory requirements imposed by external parties such as Federal bodies and industry groups. Participate in government and industry working groups/task forces on developing innovative solutions to enhance banking and payment efficiencies. Provide comprehensive and timely banking advice to program areas and agencies supporting government initiatives.
b. Provide centralized cash management services that maximize liquid reserves returns.	Ensure the provision of timely and accurate cash information for the development of the Financing Table in the Annual Budget and Fall Economic Statements. High service standards on service contracts with client agencies to maintain client satisfaction.	Provide actual and forecast liquid reserve numbers for the Financing Table in the Province's Quarterly Statements and Annual Budget that stand up to scrutiny by internal and external stakeholders. Ensure relevant performance measures in client agency agreements are met or exceeded.

Objective	Performance Measure	Target
c. Timely and accurate forecasts to align borrowing with cash management requirements, helping to reduce IOD.	Reliable and accurate cash forecasts for the Province and client agencies.	Ensure that the Province has sufficient cash available at all times to meet its financial obligations. Continually enhance the Cash Management System, keeping it responsive to changing needs, technology, and the IT environment within the OPS, i.e. IFIS renewal and Hyperion.
d. Advocacy of best practices in cash management across the OPS	Policy advice where required to assist programs in complying with the Cash Management Directive.	Improved compliance with the Cash Management Directive; implementation of policies more in line with best practices.
e. Provide efficient, accurate and timely settlement and payment processes, and implement appropriate settlements industry best practices.	Ensure debt management, investments, derivatives, and loans are recorded and processed efficiently and accurately. Ensure that ITS, the OFA's system of record for debt, derivatives, and assets, continues to operate effectively. Adoption of industry best practices.	Make system and procedural enhancements to improve the efficiency and effectiveness of settlements' functions, and continue to mitigate operational risk. Replace the Public Bodies Financing System with a user friendly and efficient system that is either developed internally or sourced externally.
f. Provide timely and accurate financial reporting for the Province in relation to debt, derivatives and investments, and the agency financial statements.	Ensure security and proper records of transactions. Provide high quality financial information for publication in a timely and accurate manner.	Enhance internal controls on accounting records by applying best practices and staff training. Prepare internal reporting to ensure data integrity. Through research and continuous review, ensure that accounting records and financial reporting are prepared in accordance with applicable PSAB requirements. Provide timely and accurate information for the Province's Budget, Estimates, quarterly Finances and Public Accounts. Provide timely and accurate agency financial statements that pass the scrutiny of the OFA Board and its Audit and Risk Management Committee as well as the Office of the Provincial Auditor General.

Objective	Performance Measure	Target
g. Monitor and assess accounting developments that affect the financial reporting for the Province and its agencies.	Keep abreast of current accounting developments in various jurisdictions: the International Accounting Standards Board (IASB), the Financial Accounting Standards Board in the U.S. (FASB), and the Accounting Standards Board and the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.	Continue to monitor developments in accounting standards set by PSAB and other standard setting bodies that may affect the Province and agency reporting. Provide advice to the Office of the Provincial Controller, on developments in accounting standards that impact debt and related areas. In coordination with other provinces, actively bring the collective concerns of Ontario and the other provinces on the Financial Instruments standard to PSAB. Continue to liaise effectively with the Office of the Provincial Controller and the Office of the Auditor General of Ontario in making recommendations and/or responses on PSAB's review of these standards.

5. Advise on and implement corporate and electricity finance projects and policies

Objective	Performance Measure	Target
a. Provide financial analysis and advice on financing and other proposals that have capital markets implications. Develop the structure and negotiate the detailed terms and conditions of any transactions to minimize costs and best meet market expectations.	Cost-effective leasing policies and structures. Appropriate due diligence on financing aspects of asset management projects. Comprehensive advice on structuring and completing financial transactions. Accurate determination of value for money benchmarks and evaluating and recommending interest rates.	Comprehensive, timely and accurate advice to support objectives. OFA to be viewed across the government as a centre of excellence in financial analysis and providing high quality financial advice.
b. Provide financial analysis and advice on cost-effective borrowing, investing, and risk management by public bodies. Negotiate the detailed terms and conditions of any loans to be guaranteed to minimize costs and	Borrowing and investing through financial markets as cost-effectively as possible and within appropriate risk management frameworks for each client.	Comprehensive, timely and accurate advice to consolidated public bodies.

Objective	Performance Measure	Target
best meet market expectations.		
c. Provide financial analysis and advice on transactions requiring a provincial guarantee or that may otherwise increase the indebtedness or contingent liabilities of Ontario.	Comprehensive, accurate and timely review and identification of risks and potential risk mitigation strategies.	Comprehensive, timely and accurate advice as required.
d. Provide analysis and advice on electricity policies and initiatives that have potential financial, fiscal, and/or economic implications on the Province and/or OEFC.	Early identification and development of options to effectively deal with opportunities, pressures and/or risks to the Province or OEFC.	Comprehensive, timely and accurate analysis and advice, as required, including on the following: • Electricity supply, conservation, transmission, distribution and other electricity price mitigation initiatives. • Nuclear supply, including nuclear refurbishments. • Ongoing implementation of the ALGP. • Ongoing implementation of IEI program, ICI, NIER program, and the OREC.
e. Analysis and modelling to support the OEFC's objectives, including monitoring of OPG and Hydro One results.	Concise, accurate and timely reports and briefings as required.	Provide analytical and modelling support, as required, for the OEFC annual audit and reporting process. Continue regular financial update meetings with OPG to monitor financial performance. Provide required analysis to support management of NUG contracts (e.g., contract/rate negotiations, and NUG litigation.)
f. Provide electricity sector projections for the Province and the OEFC.	Ensure projections are provided in a timely manner, using best available information and reasonable assumptions.	Provide projections for the current year and medium-term for the Province's Budget, Fall Statement and quarterly finances; as well as projections for OEFC on an annual and quarterly basis. Provide regular updates on projections versus plan.

Objective	Performance Measure	Target
g. Analysis and advice to support the effective administration of ONFA, including approving annual budgets, monitoring fund balances, managing the Provincial Guarantee provided to the Canadian Nuclear Safety Commission (CNSC), and monitoring policies and other initiatives related to nuclear liabilities.	Comprehensive and appropriate due diligence performed on annual budgets, reference plans, disbursements and financial documents.	Review and approve annual budgets, including investment related expenses, change requests, and disbursements as per ONFA timelines. Ensure budgets are consistent with approved reference plans and only eligible costs are funded. Ensure fund flows follow ONFA requirements through audits and review of financial documents. Review and monitor plans and projects related to managing nuclear liabilities for decommissioning and waste management. Monitor and review the ONFA Reference Plan and the required level of the Provincial Guarantee to the CNSC as nuclear liability estimates are revised and as segregated funds change in value. Provide analysis and advice on OPG's contribution schedules and the Provincial Guarantee that is provided under ONFA to the CNSC.
h. Provide advice, as required, on evaluating the Province's assets, including investments in its business enterprises and analysis and advice on optimisation to enhance efficiency and maximize value.	Ensure required analysis, advice, and briefings are comprehensive, timely and accurate.	Provide timely and highly reliable financial advisory services as required, including modeling, option development, and the identification of key considerations to support OFA, Ministry of Finance and Provincial decision-making. Provide financial analysis and advice related to the Province's holdings of Hydro One shares and the sale/merger of Hydro One Brampton. Provide analysis and advice related to optimizing the Province's real estate portfolio, in particular the sale of OPG headquarters properties, Seaton and Lakeview lands.

Objective	Performance Measure	Target
i. Provide financial analysis and advice on corporate issues and initiatives	Ensure required analysis, advice, and briefings are accurate, timely, and comprehensive.	Provide expert financial analysis and advice as required, including modeling proposals and structuring transactions. OFA CEO, or delegate, participation and leadership on Boards and Committees overseeing these initiatives.

6. Ensure the successful activation of OFA's decentralized Business Continuity Plan

Objective	Performance Measure	Target
a. Review and update the Corporate BCP framework and business unit plans.	Business units being able to successfully complete their identified critical time-sensitive tasks from decentralized locations.	Maintain staff awareness and readiness to implement the Corporate and business units' plans to meet business requirements in the event of a business disruption. Conduct and assess periodic BCP tests.

HUMAN RESOURCES

Staff allocation for 2016–17 is 166 positions, or full-time equivalents (FTEs), excluding leaves of absences. Between 2007–08 and 2016–17, the borrowing program is projected to increase by 32 per cent, from \$18.0 billion to \$23.8 billion, and the Province's net debt is projected to increase by 103 per cent, from \$156.6 billion to \$317.9 billion. The OFA's operating costs (forecasted) increased by 20 per cent, from \$22.5 million to \$27.1 million, and FTEs dropped by three per cent, from 172 to 166.

The OFA continually reviews its recruitment and retention strategies to ensure it is able to attract and retain qualified staff. Some of the initiatives that have been implemented include supporting flexible work arrangements, and implementing diversity, inclusion and accessibility strategies. Approximately 85 per cent of the OFA is on the government compensation plan, which is controlled centrally. All but five positions are excluded from collective bargaining.

The OFA will continue to work with the Human Resources and Governance Committee of the OFA Board and the Ministry of Finance Human Resources Branch to develop further initiatives to promote staff retention and skills development. The OFA will also continue to work with the OPS Recruitment Centre to enhance the OFA's ability to attract qualified candidates. This will ensure the OFA can meet its current and future business priorities. Initiatives may include providing opportunities for staff to participate in learning and development courses, job shadowing, secondments, and special projects to the extent feasible to enable continuous learning and enhance succession planning.

FINANCIAL BUDGET

OFA Multi-Year Operating Expenditure Forecast

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Salaries	19,055	19,055	19,876	20,273	20,679
Benefits	2,195	2,195	2,299	2,345	2,392
ODOE	5,802	5,802	5,352	5,412	5,513
Sub-total Cash DOE	27,052	27,052	27,527	28,030	28,584
Add: Amortization	881	863	789	764	786
Less: Capital Expenditure	(865)	(865)	(817)	(785)	(795)
Direct Operating Expense	27,068	27,050	27,499	28,009	28,575

Staffing levels are forecast to remain at 166 positions (FTE basis) over the planning horizon.

The tables and financial statements included in this document have been prepared on an accrual basis of accounting to correspond with the OFA Financial Statements.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

OFA - Income Statement Projections

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Revenue					
Interest Revenue	3,003	3,067	3,305	2,847	2,715
Cost Recovery from the Province	22,207	22,206	22,640	23,034	23,485
Cost Recovery from agencies /related parties	4,861	4,844	4,859	4,975	5,090
Total	30,071	30,117	30,804	30,856	31,290
Expenditure					
Operating Expense	27,068	27,050	27,499	28,009	28,575
Total	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

STRATEGIC CORPORATE SERVICES

Strategic Corporate Services Division (SCSD) is accountable for delivering robust Information Technology, Strategic Human Resources Management, Records and Information Management, Procurement and Policy Management, Facilities Management and Physical and Cyber Security Services. Enhancements to each of these areas drives efficiency, auditability and consistency throughout the organization. SCSD ensures the OFA's and OEFC's core business objectives are supported by reliable, dedicated, customized and integrated technology infrastructure, business applications, administrative process and access to external real-time data sources.

A major focus of SCSD is to support the OFA's core operational business processes. By actively assessing and adjusting the underlying functions that enable the day-to-day business needs, SCSD is able to provide streamlined solutions that increase the safety and wellbeing of the staff, further the OPS Diversity and Inclusion commitments, and provide transparency into procurement and human resource activities.

In addition, reliable and secure information technology is essential to the OFA's ability to deliver its mandate. To that end, SCSD strives to ensure that business applications and related services are not down more than four times a year for a period greater than 30 minutes for each occurrence during normal business hours. The OFA's financial business functions are powerfully supported by SCSD's technology infrastructure, providing availability, integrity, security, and capacity via high-performance, highly-redundant systems at a competitive cost. SCSD can effectively deliver and maintain state-of-the-art financial systems and services because of OFA's internal management of information technology.

The following initiatives will be carried out over the next three years to support the OFA's strategic direction and objectives:

Initiative	Duration	Contribution to key OFA activities
Automate and enhance structured, processes across the organization such as Asset and Inventory Management.	2017–18	Address the organization's increased focus on procurement practices.
Increase the effective management and delivery of IT projects through centralized, standardized processes and controls.	2017–18	Continue to enhance delivery and effectiveness of resources in project management efforts. Support OFA objectives in the delivery of technical initiatives.
Expand core systems to track new government initiatives, allow for greater flexibility in hedge portfolio group splitting, strengthen bond and swap pricing modules and Implement applicable changes as per financial and regulatory reform requirements.	2017–19	Support a large borrowing program and the corresponding large volume of associated hedging activity; provide flexibility to support the commodities hedging program conducted by the OFA for Metrolinx; and the continuation of new government initiatives, including Ontario Green Bonds, and the Trillium Trust.
Through iterative enhancements to technology and policy, ensure the security of information assets and infrastructure across multiple platforms.	2017–19	Address increased requirements for integrated communication solutions as well as data anytime, anywhere. Enhance support for the OFA's BCP.

Creating and enhancing OFA business dashboards to gain increased insight and enhance trading and portfolio management information.	2017–19	Provide OFA executives with timely information to support treasury and borrowing program activities.
Creating and enhancing KPIs and dashboards, reporting mechanisms to measure the performance of delivered corporate services.	2017–19	Provide OFA executives with timely information to support business activities.
Continuous IT infrastructure improvement that will enhance performance, increase capacity, and make the OFA's computing solution highly available.	2017–19	The OFA's financial business functions are well supported by its robust IT infrastructure, which is essential for the OFA to carry out its mandate.
Continuous IT security improvement that will ensure the integrity of the OFA's IT network and prevent any unintended data loss or unauthorized access. Review, revise, and develop IT policies and procedures based on emerging business or technology requirements.	2017–19	The OFA is proactive in ensuring that its systems are highly secure.
Continuous IT service delivery enhancement that will improve the process of incident management, change management, and problem management. Implement SCSD Service Catalogue and Configuration Management Database (CMDB).	2017–19	The OFA's financial business functions are well supported by various IT Services. A better service delivery framework is essential to deliver IT Services professionally and on a timely basis.
Streamline procurement through a centralized, process-driven methodology.	2017–20	Provides clear accountability, auditability and transparency.
Implementation of an Information Management Strategy that transitions the treatment of information from 'data' to an 'asset'.	2017–20	Promotes the retention of corporate knowledge within the organization.
Continuous Enterprise Project and Portfolio Management that will improve the ability to track, report and deliver on business and technology initiatives.	2017–19	Provides clear accountability, auditability and transparency.

INITIATIVES INVOLVING THIRD PARTIES

There are no third parties, other than the provincial government, with which the OFA is partnering or with which it has a funding relationship for the purpose of delivering OFA programs. Moreover, the OFA does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

IMPLEMENTATION PLAN

For 2017–20, the OFA intends to implement its business plan using existing resources and allocations.

COMMUNICATION PLAN

Business Plan

The OFA Business Plan serves as an internal tool for management and staff in the development of program plans and, through the regular reporting of the status of initiatives to the Board of Directors, it serves as a performance measurement tool. The plan also communicates the OFA's business objectives to the Minister of Finance and the Ministry.

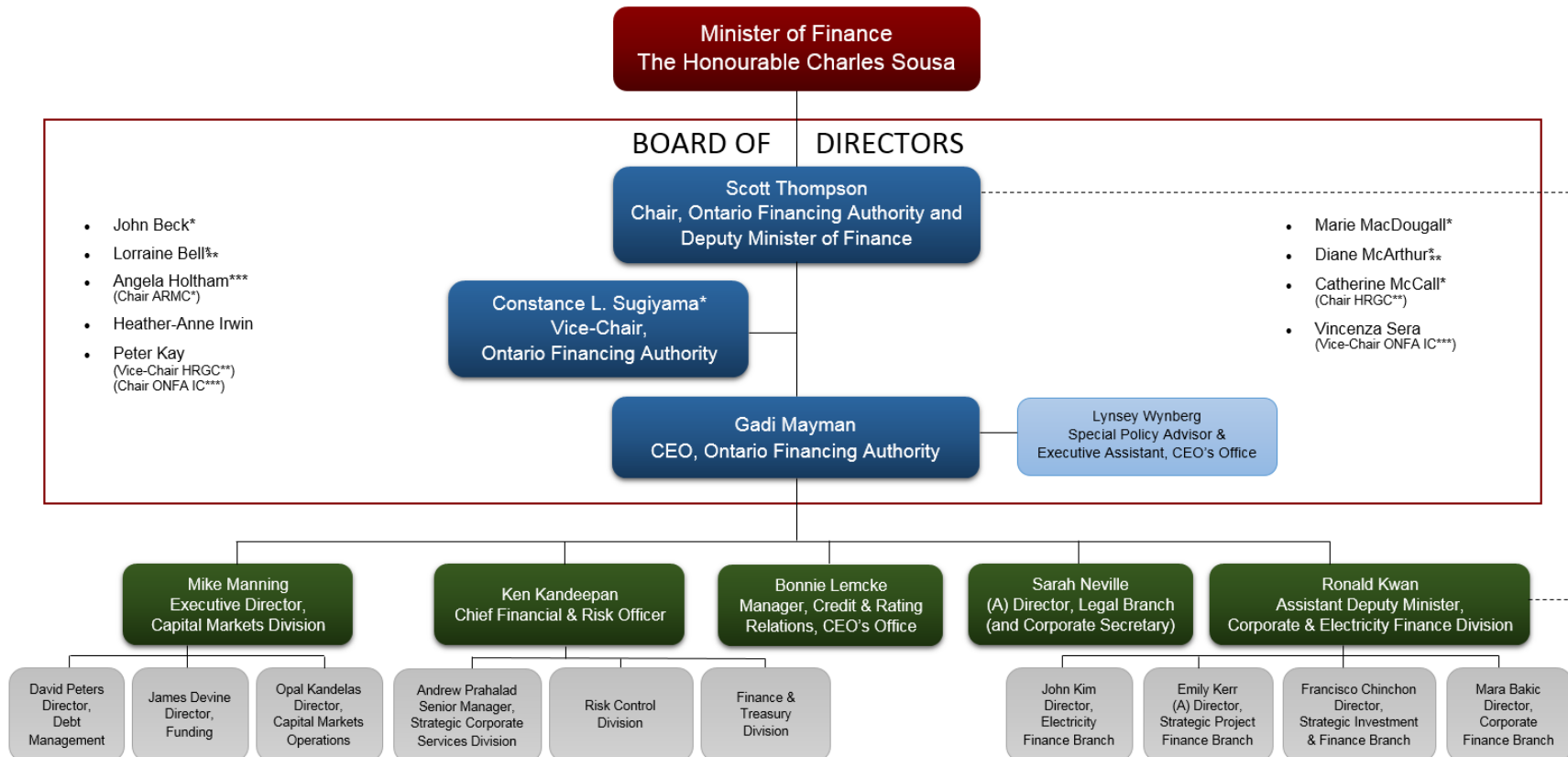
Other Communications

The OFA has a number of external stakeholders, including institutional and retail investors, investment dealers, banks, and credit rating agencies. In 2017–20, the OFA will communicate with stakeholders using various methods including:

1. Websites (including expense information): www.ofina.on.ca; www.ontariosavingsbonds.com; www.ofina.on.ca/algp;
2. Budget and quarterly updates: develop borrowing and debt management components;
3. Fact sheets, investor relations presentations, and other investor material (available on the website);
4. Annual Report (as required by the *Capital Investment Plan Act, 1993*);
5. Regulatory filings;
6. Business Plan; and
7. Memorandum of Understanding (MOU).

Other methods of communication to be used throughout the year are investor relations meetings and regular discussions with credit rating agencies. In addition, the OFA is responsible for the development of communications vehicles for OEFC and will continue to maintain the OEFC website, www.oefc.on.ca, and to produce the OEFC annual report.

ORGANIZATIONAL CHART



* ARMC = Audit & Risk Management Committee

** HRGC = Human Resources & Governance Committee

*** ONFA IC = Ontario Nuclear Funds Agreement Investment Committee

From: [LEE John -TREASURY](#)
To: [Ken Kandeepan](#)
Cc: ["Veinot, Cindy \(TBS\)"; Christina Zhang; MAUTI John -FIN & C CTRL; LIU Sheen -TREASURY; RYFA Ken -TREASURY](#)
Subject: RE: EXTERNAL - FW: Good question re: the capitalized interest -- you've got me thinking now....
Date: Thursday, February 23, 2017 3:08:38 PM

Ken:

We will review and provide a response to your questions.

John

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: Thursday, February 23, 2017 2:37 PM
To: LEE John -TREASURY
Cc: 'Veinot, Cindy (TBS)'; Christina Zhang
Subject: EXTERNAL – FW: Good question re: the capitalized interest -- you've got me thinking now....

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Hi John

I reviewed OPG's submission and Gadi suggested that I forward my comments to you. Happy to discuss.

Thanks

Ken k

Slides 9 and 16 provide the most amount of details re the basis of the accounting. Slide 16 mentions that OPG's net income and EBITDA will improve providing the required offset to the increase in the Province's IOD from incurring additional debt to fund the 44% equity injection. No details are provided as to how OPG's net income will increase giving rise to the following comments.

- The SPV/Trust is required to pay interest on both the senior debt and the sub debt to respectively the capital markets and OPG. Given that the SPV/Trust has no revenues from implementation to 2029, the only available option is to credit the outstanding liability each year by the annual interest costs instead of paying same. How willing is the market to provide debt funding, even if it is senior debt, when interest payments will only commence in 2030. And if market debt funding is indeed available what is the premium charged to compensate for accumulating the interest instead of making payments.
- Alternatively, the SPV/Trust can use the cash inflow from OPG (the sub debt) to pay interest on the senior debt. That option is not possible mathematically unless the OPG funding

exceeds 44% for total SPV/Trust funding of over 100%.

- Assuming all of this works, OPG's net income will in my opinion, be impacted since upon consolidating the Trust, OPG's interest income from the SPV/Trust will be more than offset by the SPV/Trust interest expenses. The SPV/Trust incurs interest on both the senior and the sub debt, OPG's net income will actually reduce by the amount of the interest the Trust incurs on the senior debt unless there are offsetting increases in OPG's revenues. As such I am confused as to how the Province can offset the increase in its IOD from the debt incurred to fund the equity injection. On a cash basis the Province will also be out, unless OPG increases dividends.
- There is also limited opportunity for OPG to generate additional revenues and net income based on the cash flow from the Province's equity injection. The funds will be promptly lent to the SPV/Trust to purchase the regulatory asset from the IESO and hence not be available for use by OPG to generate a return.
- It would be useful if OPG furthers fleshes out the above, including income and cash flow projections for the SPV/Trust

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From: [LEE John -TREASURY](#)
To: [Ken Kandeepan](#)
Cc: "Veinot, Cindy (TBS)"; Christina Zhang; [MAUTI John -FIN & C CTRL](#); [LIU Sheen -TREASURY](#); [RYFA Ken -TREASURY](#); [CHENG Alec -FIN & C CTRL](#)
Subject: RE: EXTERNAL - FW: Good question re: the capitalized interest -- you've got me thinking now....
Date: Thursday, February 23, 2017 4:56:32 PM
Attachments: [image001.png](#)

Ken:

Please find the response below:

1. To clarify the underlying structure: the interest on debts are to be paid and there will be periods of interest only payment to debt holders before cumulative deferred amount is to be collective from customers (the GA deferral amount on customer bills is to grow to offset the interest expense/payment). Illustration below

Customer Bill			
\$	Current	New Bill-Yr 1	New Bill-Yr 2
Other	30	30	30
GA	150	150	150
GA Deferral		-50	-52.5
Interest			2.5
Total	180	130	130

***assume \$50 GA to be deferred**

Interest expense 5%*50=\$2.5

2. Assume Deferred GA amount is \$2B for Yr 1 and interest rate is 5%, on a consolidated basis incremental asset is \$2B while incremental debt is*\$2B* 56% (the sum of 51% senior debt and 5% OPG financing from capital markets). Revenue generated for Yr 1 is 2B*5% while interest expense is 2B*56%*5%, leaving net income positive. The same logic applies going forward

Hopefully this simplified example clarifies the approach .

John

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: Thursday, February 23, 2017 3:21 PM
To: LEE John -TREASURY
Cc: "Veinot, Cindy (TBS)"; Christina Zhang; [MAUTI John -FIN & C CTRL](#); [LIU Sheen -TREASURY](#); [RYFA Ken -TREASURY](#)
Subject: RE: EXTERNAL - FW: Good question re: the capitalized interest -- you've got me thinking now....

Thanks John

From: LEE John -TREASURY [<mailto:john.s.lee@opg.com>]

Sent: Thursday, February 23, 2017 3:09 PM

To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>

Cc: 'Veinot, Cindy (TBS)' <Cindy.Veinot@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; MAUTI John -FIN & C CTRL <john.mauti@opg.com>; LIU Sheen - TREASURY <sheen.liu@opg.com>; RYFA Ken -TREASURY <ken.ryfa@opg.com>

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Sent: Thursday, February 23, 2017 2:37 PM

To: LEE John -TREASURY

Cc: 'Veinot, Cindy (TBS)'; Christina Zhang

Subject: EXTERNAL – FW: Good question re: the capitalized interest -- you've got me thinking now....

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From: [Gavin He](#)
To: [Christina Zhang](#); [Vivienne Skoberne \(MOHLTC\)](#)
Subject: RE: Foundational Briefings & Materials | New MO Staff
Date: Friday, March 03, 2017 3:39:44 PM
Attachments: [Foundation Briefing - AO \(2017 03 03 v03\).pdf](#)
[OEEC-SD&RSD-Fiscal Interactions-Financial Assistance_Markup v3_clean.pdf](#)

Hi Christina/Vivienne,

FYI – please see attached the CEFD decks that submitted for the MO transition binder.

Thanks,
Gavin He

From: Ize-Dukuze, Marilyn (MOF) [<mailto:Marilyn.Ize-Dukuze@ontario.ca>]
Sent: Wednesday, February 22, 2017 1:55 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Jayne Harten (ENE) <Jayne.Harten@ontario.ca>; Bosnjak, Diana (MOF) <Diana.Bosnjak@ontario.ca>; Jamie Buckland Foster (MCYS) <Jamie.Buckland.Foster@ontario.ca>; Gavin He <Gavin.He@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Wallace, Julia (MOF) <Julia.Wallace@ontario.ca>; Ghufuran Tarin (MOF) <Ghufuran.Tarin@ontario.ca>; Ola Agboola (MEDTE/MRI) <Ola.Agboola@ontario.ca>; Howe, Jyllian (MOF) <Jyllian.Howe@ontario.ca>; Rebecca Morier (MOF) <Rebecca.Morier@ontario.ca>; Bridget Jeanes (MGS) <Bridget.Jeanes@ontario.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Gwendolynne Young (ENE) <Gwendolynne.Young@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Jamille Clarke-Darshanand (MOF) <Jamille.Clarke-Darshanand@ontario.ca>; Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>
Subject: Foundational Briefings & Materials | New MO Staff

Hi –

Effective Monday, Feb 27th, Jessica Martin will join the MO as Senior Comms Advisor & Press Secretary.

There are two parts to the transition process of any new staff in the MO: transition binder (contains overview material of all of our policy files and programs) and a series of foundational briefings.

Part 1 - Transition Binder (applies to all)

Attached is a draft TOC working from previous TOCs of transition binders I put together. I also have the corresponding materials from the last transition. As we're all aware there has been many changes since, and thus I will need your help in making sure your division's overview decks are up to date. (Note – if not already in place, I recommend creating an update process with your teams for overview decks, maybe similar to the CINs. Just flagging that the expectation in the DMO and MO is that there is overview material available on all our policy files. Might be easier when these requests come along. Anything beyond the overview material would be requested on an adhoc basis.)

If helpful, I am happy to flip anyone with the current materials I have for their policy file.

Part 2 – Foundational Briefings (applies only to the areas responsible for the issues listed below)

In terms of briefings, the MO would like briefings on the following items:

- CSB processes – media/correspondence/issues focus – March 2nd
- Fiscal Plan Overview – (incl. Document process overview) – March 6th
- US Steel – March 7th
- Alcohol – March 8th
- Gaming Modernization – March 8th
- Housing Affordability – March 9th
- Municipal Revenue Tools – City of Toronto – March 9th
- Hydro One – March 10th
- CHT – March 10th

Content/Style: As you will see from the list, they would like to focus on specific issues, not necessarily cover all policy files. Additional briefings will be requested down the road, or post review of the transition binder. They would like these briefings to be high level focusing on the issues of these items, what has been communicated on them, what has been the response to those communications (from stakeholders, other interest groups, opposition). Note the new staff has no previous Queen's Park experience.

Attendees: ADMs are welcome, but not required or expected to lead briefings.

NEXT STEPS:

- Confirm transition binder materials and/or changes to materials – looking for materials for next week Thursday, March 2nd by noon. Kindly let me know if this is doable for your team.
- Advise as soon as possible on availability with proposed dates for the briefings, happy to accommodate folks where possible. Note briefings will be scheduled in the afternoons due to house proceedings. All dates are tentative, so again, please flag conflicts/concerns and I'll move things around.

Happy to chat further and answer any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609



Foundation Briefing: Asset Optimization



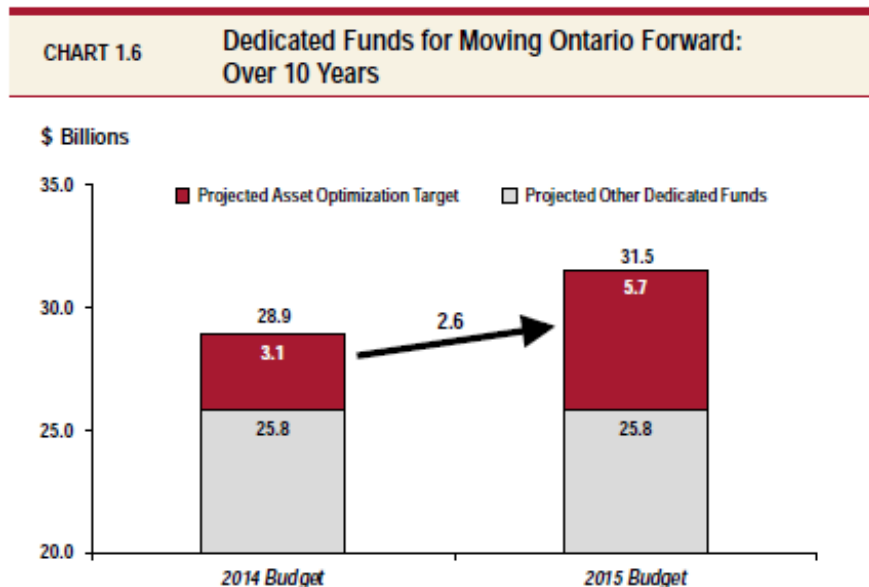
Corporate and Electricity Finance Division
March 3, 2017

Asset Optimization - Overview

- ▶ The Province remains on track in its multi-year asset optimization initiative to dedicate \$5.7 billion in net revenue gains to the Trillium Trust.
- ▶ The prescribed net revenue gains from the sale of designated assets are credited to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.
- ▶ The Province has been making significant progress on its asset optimization strategy.
 - ▶ The sale of General Motors shares was completed in February 2015.
 - ▶ OFA, with MOF Legal, led on this transaction.
 - ▶ Following the recommendations of the Premier's Advisory Council on Government Assets (the Council), the initial public offering (IPO) of Hydro One was finalized in November 2015 and a secondary offering was completed in April 2016.
 - ▶ Hydro One transactions are being led by the Ministry of Finance's Office of Government Business Enterprises and Strategic Initiatives, with advice from an Expert Investment Advisory Committee chaired by Ed Clark and in co-ordination with the Minister of Energy as shareholder on behalf of the Province.
 - ▶ The Province is also moving forward with its plans to unlock value from its real estate assets, including the Liquor Control Board of Ontario (LCBO) head office lands (announced on May 5 / closed in June), OPG's head office building, and the Seaton and Lakeview lands.
 - ▶ MOF/OFA has the lead on the Strategic Real Estate Assets Working Group, with CEFD working with Infrastructure Ontario (IO) and asset-specific ministries.
 - ▶ In August 2016, the government dedicated \$3.2 billion in net revenue gains from Hydro One share sales in 2015 to the Trillium Trust. The Province also credited the Trillium Trust in October 2016 with \$246 million from the sale of the LCBO head office lands, bringing the total amount credited to the Trust to approximately \$4.8 billion.
 - ▶ The government previously credited \$1.35 billion in net proceeds from the sale of the Province's shares in General Motors.

Asset Optimization & Moving Ontario Forward

- ▶ In the 2014 Budget, the Province announced that nearly \$29 billion would be made available for investment in its Moving Ontario Forward plan for public transit, transportation, and other priority infrastructure projects, of which \$3.1 billion represented dedicated funds projected to be provided as part of the government's asset optimization strategy.
- ▶ In the 2015 Budget, the government announced it was moving forward with broadening the ownership of Hydro One as part of its asset optimization strategy, and increased its asset optimization target by \$2.6 billion, to \$5.7 billion.
- ▶ Investments in Moving Ontario Forward increased by an equivalent amount, from nearly \$29 billion to \$31.5 billion.
- ▶ As published in the 2016 Budget and 2016 FES, the government remains on track to generate net revenue gains of \$5.7 billion from asset optimization.



Source: 2015 Budget

Broadening ownership of Hydro One

Hydro One IPO

- ▶ The IPO was the first phase in broadening the ownership of Hydro One.
- ▶ The Province completed the Hydro One IPO in November 2015, at an IPO price of \$20.50 per share, raising approximately \$1.83 billion in gross proceeds, as well as about \$116 million from related share sales to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP), for a total of about 16 per cent of Hydro One common shares outstanding (~15 per cent through the IPO and ~1 per cent through related share sales).
 - ▶ Note that for the shares purchased by the PWU and SEP trusts through provincial loans, the net proceeds were reported in the 2015-16 Public Accounts as deferred revenue. The gains on sale will be recognized as revenue over time as the loans are repaid.
 - ▶ Underwriter fees were 1% for institutional sales and 3% for retail sales.

Secondary Offering

- ▶ In April 2016, the Province completed a secondary offering of Hydro One shares.
- ▶ Through the offering, the Province sold 14 per cent of Hydro One common shares outstanding in a firm commitment offering at \$23.65 per share, raising a total of approximately \$1.97 billion in gross proceeds.
 - ▶ This was a discount of about 2.1% compared to the market closing price on April 4th, when the offering was announced.
 - ▶ Underwriter fees were 1% for institutional sales and 3% for retail sales, and capped at 2% on average.

Broadening ownership of Hydro One (cont...)

Overall Goal

- ▶ By broadening Hydro One ownership, the Province expects to generate \$4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and \$5 billion to reduce debt.
- ▶ The Province will continue to realize value from Hydro One shares from its ownership and will reduce its stake over time to yield significant benefits to Ontarians, with a legislative requirement to not sell below 40 per cent ownership of Hydro One voting securities.
- ▶ **The \$4 billion in net revenue gains** commitment will be made up of the following sources:
 - 1) The gain on sale from the sale of shares (gross proceeds of sale less transactions costs and the book value of the shares (the equity) on the Province's books)
 - 2) A further net revenue benefit related to the IPO due to impact of a deferred tax benefit on Hydro One's net income. This is due to the revaluation of Hydro One's assets for tax purposes as a result of the IPO.
- ▶ **The \$5 billion debt reduction** commitment reflects the Province's commitment to reduce electricity sector debt, flowing cash to the Ontario Electricity Financial Corporation (OEFC) through the Province paying down its debt and other payables to OEFC:
 - 1) Proceeds related to the book value of shares sold.
 - 2) A pre-IPO special dividend of \$800 million from Hydro One.

Real Estate

- ▶ The Province is executing its strategy to optimize some of its real estate assets.
 - ▶ **LCBO head office lands:** the Province has closed the sale of the LCBO head office lands, generating about \$260 million in gross proceeds.
 - ▶ A news release was issued on May 5th, indicating gross proceeds of \$260 million, subject to closing adjustments. The financial close was in June.
 - ▶ A net revenue gain on sale of \$246 million was received, which is greater than the \$200 million net profit estimate in Budget 2012.
 - ▶ **OPG HQ:** the Province continues to move forward with the sale of OPG's head office building and associated parking garage.
 - ▶ On January 9, 2017, OPG announced that it had reached an agreement with KingSett Canadian Real Estate Income Fund LP for the sale, with the sale scheduled to close in April 2017.
 - ▶ **Lakeview:** the former Lakeview generating station lands in south Mississauga continue to be reviewed under a longer-term revitalization plan for the property and adjacent lands. The Province is focused on realizing the potential of the Lakeview lands, with an opportunity to create a new and sustainable mixed-use community along Mississauga's eastern waterfront.
 - ▶ **Seaton:** As announced in January 2016, the lands are being marketed to prospective purchasers to support a new urban development in the City of Pickering that will be home to 70,000 people and support 35,000 jobs.
- ▶ The government remains committed to dedicating the net proceeds generated from these sales to the Trillium Trust.

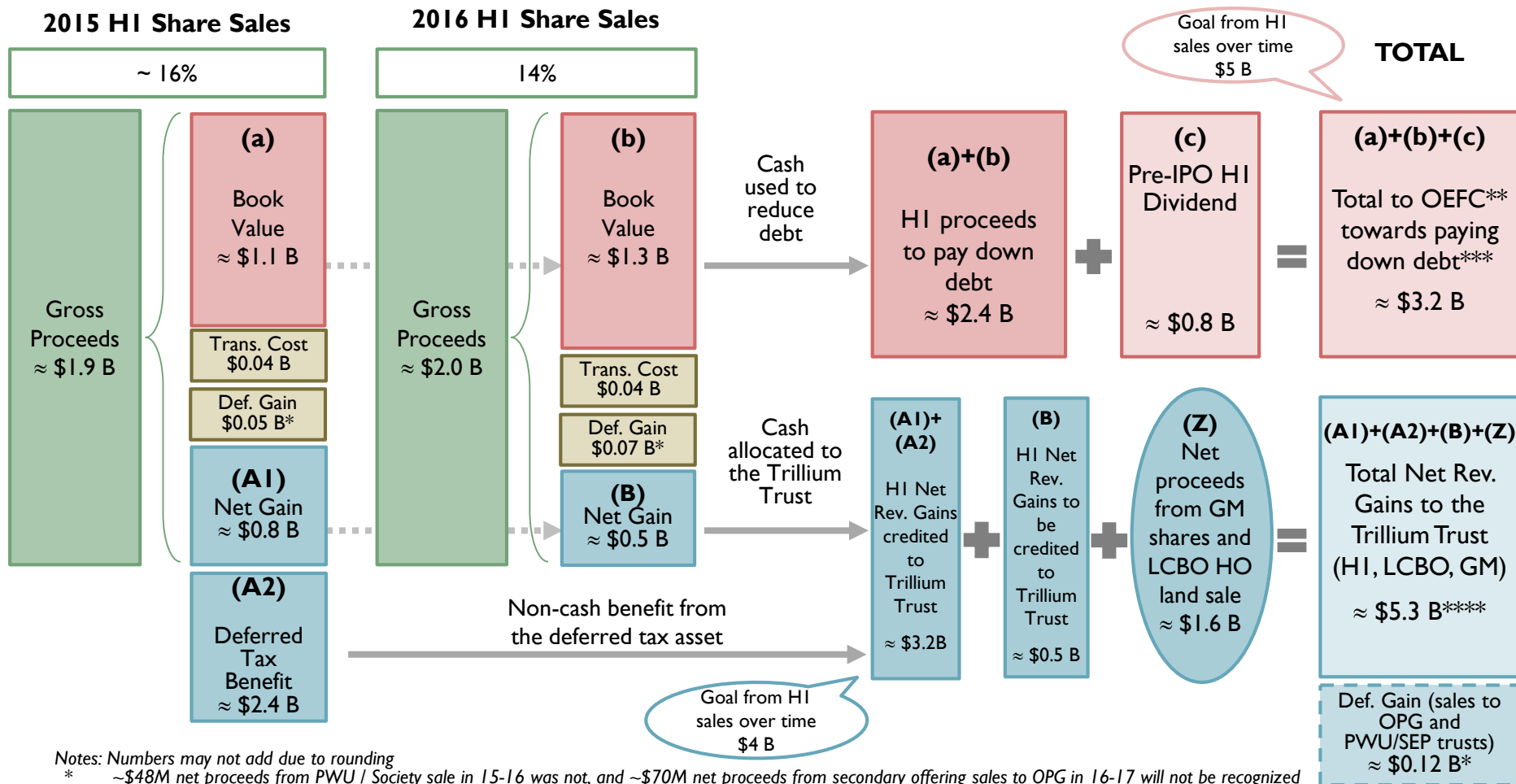
Trillium Trust

- ▶ The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trillium Trust.
- ▶ In Fall 2015, the government passed amendments to the *Trillium Trust Act, 2014* that, among other changes, designated the Province's shares in Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands as qualifying assets under the *Trillium Trust Act, 2014*.
 - ▶ The Act also provides for regulations to designate additional assets, such as the Seaton lands.
- ▶ In August 2016, the government credited the Trillium Trust with \$3.2 billion in net revenue gains from the sale of Hydro One shares in 2015. The net revenue gains were comprised of:
 - ▶ designated proceeds of disposition totalling about \$0.8 billion, and
 - ▶ the gain to the Province of about \$2.4 billion from Hydro One's deferred tax benefit.
- ▶ Volume I of the 2015-16 Public Accounts included an update on the balance of the Trillium Trust as of March 31, 2016, as well as the balance of the Trillium Trust with the addition of the net revenue gains from the Hydro One share sales.
 - ▶ As of March 31, 2016, the Trillium Trust had been credited with \$1.35 billion from the sale / redemption of the Province's shares in GM
 - ▶ With the addition of \$3.2 billion in net revenue gains from the sale of Hydro One shares, the balance of the Trillium Trust as of September 2016 was about \$4.5 billion.
 - ▶ Please see Appendix for the Trillium Trust update that appeared in Volume I of the 2015-16 Public Accounts.

Trillium Trust (cont...)

- ▶ In October 2016, the government credited the Trillium Trust with \$246 million in net revenue gains from the sale of the LCBO head office lands. This brings the current balance of the Trillium Trust to about \$4.8 billion.
- ▶ The government is moving forward with a regulation to dedicate net revenue gains from the secondary offering of Hydro One shares to the Trillium Trust.
 - ▶ The regulation related to the secondary sale is expected to be introduced by the end of 2016-17.
 - ▶ Assuming the approval of a Treasury Board regulation to dedicate net revenue gains of about \$0.5 billion from the sale, this would bring the balance of the Trust to about \$5.3 billion.
- ▶ The government will also move forward with a regulation to credit the Trillium Trust with the net revenue gains from the sale of Hydro One shares to the PWU / SEP trusts that were purchased using Provincial loans and for the purchase of shares by OPG.
 - ▶ Please see the Appendix for a discussion of these issues.
- ▶ The government also plans to begin drawing down on the balance in the Trillium Trust in 2016–17. Based on planned expenditures, the Trillium Trust is expected to be drawn down by about \$280 million in 2016-17 **[NOT PUBLIC]** to help support initiatives such as GO Regional Express Rail (RER), Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

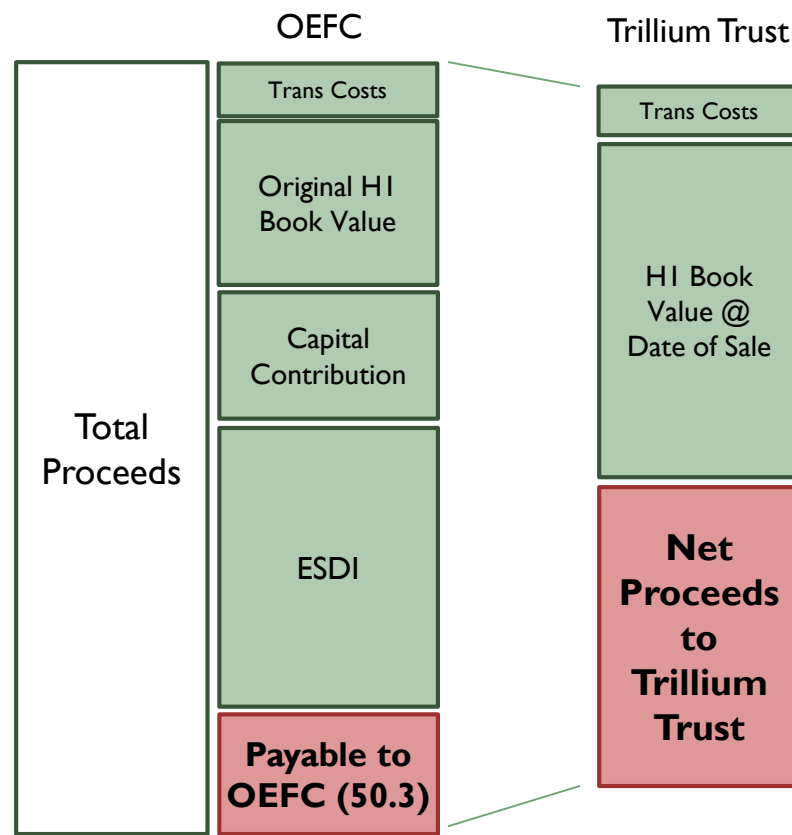
Flow Summary: 2015 and 2016 H1 Share Sales (plus GM shares and LCBO head office lands)



Section 50.3 of the *Electricity Act, 1998*

- ▶ In addition to the amounts shown on the previous slide, the Province has provided the OEFC with a financial benefit from the sale of Hydro One shares in 2015-16.
- ▶ Section 50.3 of the *Electricity Act, 1998*, requires that an amount be paid to OEFC equal to the proceeds from a sale of Hydro One shares, less transaction costs and other amounts determined by the Minister of Finance in connection with the Province's ownership of those shares.
- ▶ The Electricity Act also allows for the Minister of Finance to make the payment to OEFC in a non-cash form, including by forgiving debt owed by OEFC to the Province.
 - ▶ Providing a non-cash benefit allows for net cash proceeds from share sales to be dedicated to the Trillium Trust.
 - ▶ As illustrated on the right, the benefit to OEFC is not the same as the net proceeds that will be credited to the Trillium Trust
- ▶ On June 9, 2016, the Minister made the determination of deductions under s. 50.3 of the *Electricity Act, 1998*, and on August 10, 2016, the Province forgave about \$0.17 billion in debt owed by OEFC to the Province as payment in connection with broadening Hydro One ownership in 2015-16.

Transaction Summary



First Nations Share Sales

- ▶ On July 12, 2016, the Province announced an agreement-in-principle for the Province to sell to First Nations up to approximately 14.9 million shares of Hydro One Limited (2.5 per cent of the total current outstanding common shares), depending on the level of First Nations participation.
- ▶ Each First Nation will have up to two years from the signing of binding agreements to decide whether to participate in this arrangement.
 - ▶ All First Nations in Ontario are invited to participate.
- ▶ A minimum threshold of 80 per cent First Nations participation by the end of 2017 is required for this transaction to close.
- ▶ If the agreement is ratified, Ontario would sell the shares to a special purpose investment vehicle owned collectively by First Nations.
- ▶ The shares would be sold at \$18 per share and the purchase would be financed with a 25-year loan from the Province of up to approximately \$268 million plus certain expenses, depending on the level of First Nations participation.
 - ▶ The interest rate for the loan would be at the Province's relevant borrowing rate, plus 15 basis points.
- ▶ The Province would also provide seed capital to a new First Nation investment fund of up to \$45 million in cash, depending on the level of First Nation participation.
- ▶ The Province has also indicated that it is prepared to engage in a dialogue with the Métis in relation to broadened ownership of Hydro One.

Hydro One Brampton

- ▶ The sale of Hydro One Brampton to Alectra Utilities, a newly merged entity consisting of three former local distribution companies (Enersource, Horizon Utilities and PowerStream) closed on February 28, 2017.
 - ▶ An agreement with the companies involved in the merger was reached in September 2015, and all municipal shareholders approved the merger by November 2015.
 - ▶ Commercial closing of the transaction was also subject to Ontario Energy Board (OEB) approval, which was provided in December 2016.
 - ▶ Prior to the sale, Hydro One Brampton was wholly owned by the Province through a purpose-established holding company. This followed from Hydro One paying out Hydro One Brampton as a dividend-in-kind to the Province in the period prior to the Hydro One IPO.
- ▶ The sale / merger of Hydro One Brampton with Alectra Utilities is creating the second largest local distribution company (LDC) in Ontario.
 - ▶ This represents a major step forward in LDC consolidation. Mergers among LDCs are expected to generate greater efficiencies and economies of scale, creating more cost-effective organizations from which ratepayers will benefit.
- ▶ The sale is generating for the Province \$616.8 million in gross proceeds paid and associated payments-in-lieu of taxes to be paid to the Ontario Electricity Financial Corporation (OEFC).
 - ▶ The government is committed to crediting net proceeds from the sale to the Trillium Trust.



Appendix



2015-16 Public Accounts (Volume 1)

For the year ended March 31	2016	2015
Trillium Trust Fund		
Net Proceeds of disposition from General Motors Shares ¹	\$1,350,983,180	\$1,350,983,180

\$1,350,983,180 \$1,350,983,180

1. Represents the net proceeds of disposition, dedicated to the Trillium Trust Fund, per Ontario Regulation 53/15 under the Trillium Trust Act, for the following:
 - the common shares sold by Canada GEN, on September 10, 2013 on behalf of Ontario (\$249 million)
 - the Series A preferred stock redeemed by the General Motors Company on December 31, 2014
 - the common shares sold in 2014/15 by the Minister of Finance
2. There was no utilization of the Trillium Trust Fund in 2015-16
3. Per Ontario Regulation 295/16 under the Trillium Trust Act, the Trillium Trust has been credited with an additional \$3.2B in connection with the disposition of securities associated with broadening Hydro One ownership in 2015-16. As of September 2016 the balance in the Trillium Trust Fund is as follows:

	September 2016
Trillium Trust Fund	
Amounts related to disposition of General Motors Shares	\$1,350,983,180
Amounts related to disposition of Hydro One Shares	\$3,175,602,185
	\$4,526,585,365

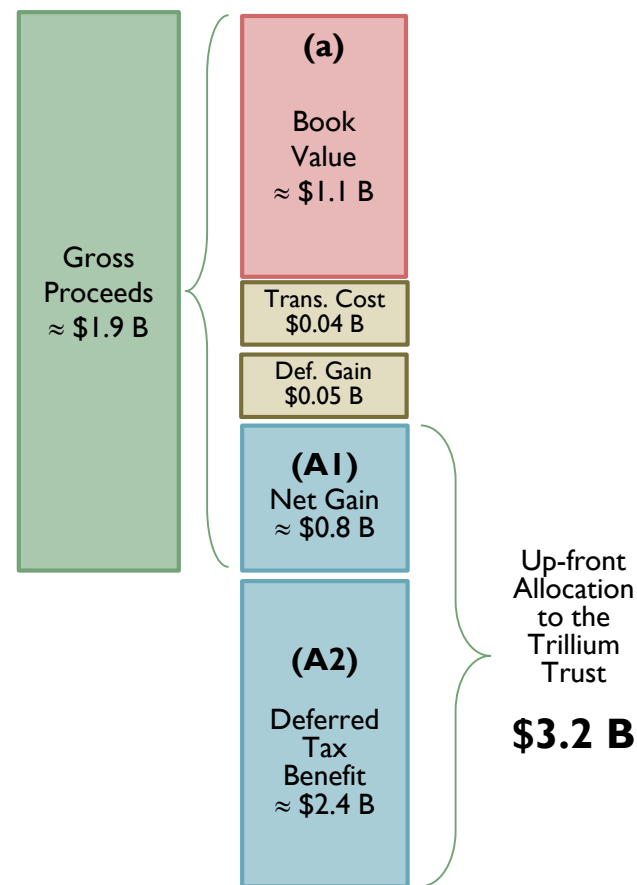
General Motors Shares

- ▶ Ontario made \$4.8 billion in financial assistance available to GM and Chrysler, provided in partnership with the federal government to support the auto sector and its restructuring in 2009.
- ▶ GM redeemed the Province's preferred shares on December 31, 2014, for total proceeds of \$0.16 billion, including a gain of \$0.02 billion.
- ▶ On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of \$1.55 billion, resulting in a fiscal gain of \$1.08 billion.
- ▶ The \$1.1 billion gain on the sale of the common and preferred shares exceeded the \$900 million asset optimization target included in the *2014 Budget* for 2014-15 Net Revenue Gains from Asset Optimization.
- ▶ The Province also realized a gain of \$249 billion from the September 2013 sale of the Province's interest in 10 million shares of GM.
- ▶ These net revenue gains, totalling \$1.35 billion, have been dedicated to the Trillium Trust.

Net Revenue Gains to Trillium Trust: First Phase of Broadening Hydro One Ownership

- ▶ The total amount that has been credited to the Trillium Trust up-front from the first phase of broadening Hydro One ownership is \$3.2 billion.
- ▶ This total is based on
 - ▶ Designated proceeds of about \$0.8 billion, reflecting the net gain on sale of shares in 2015-16, and
 - ▶ A non-cash benefit of about \$2.4 billion, reflecting the portion of the deferred tax benefit consolidated by the Province through Hydro One's net income.
- ▶ Note that this does not include about \$48 M in potential future gain associated with the shares purchased using Provincial loans by the PWU and SEP.
 - ▶ TBS (OPCD) has advised that the \$48 million will be recorded by the Province as deferred revenue in 2015-16, with the gain to be recognized into revenue over time as the loan principal is repaid, which is projected to be over the next 15 years.
 - ▶ Therefore, the \$48 million will be credited to the Trust over time as the revenue is recognized. Crediting the Trillium Trust with the gain will require a new regulation or regulations in the future.

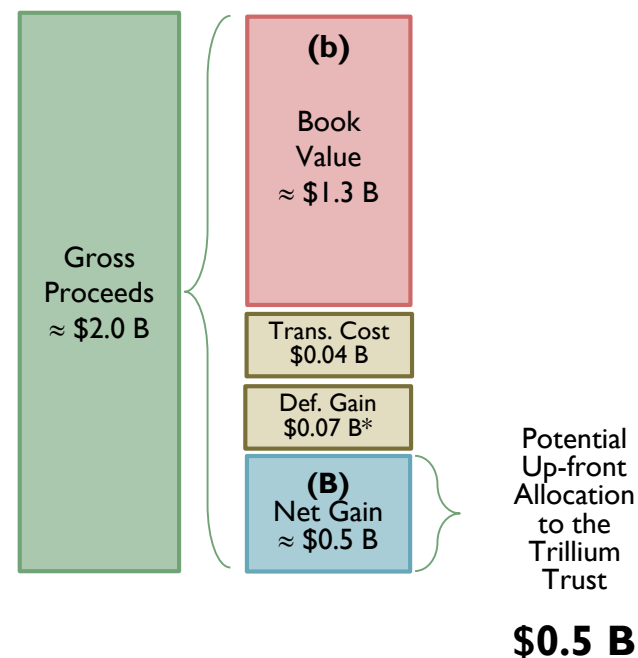
Up-front Amounts to Trillium Trust from Hydro One 2015-16 Share Sales



Net Revenue Gains to Trillium Trust: Secondary Offering of Hydro One Shares

- ▶ The total amount that is being proposed to be credited to the Trillium Trust up-front from the secondary offering of Hydro One shares is \$0.5 billion **[NOT PUBLIC]**.
- ▶ Note that this does not include about \$70 M in potential future gain associated with the shares purchased by Ontario Power Generation (OPG).
 - ▶ OPG independently purchased about 11 per cent of the offering (or about 1.5 per cent of the total common shares of Hydro One).
 - ▶ OPG purchased these shares as its collective agreements with the PWU and SEP provide that eligible members to receive common shares of Hydro One annually, for up to 15 years, starting in the third year of the respective agreements.
 - ▶ TBS (OPCD) has advised that the gain from the sales to OPG (about \$70 M gain) may not be recognized up-front by the Province. **[NOT PUBLIC.]**
- ▶ The submission for a regulation related to the secondary offering of Hydro One shares is currently tracking for Treasury Board.

Up-front Amounts to Trillium Trust from Hydro One 2016-17 Share Sales



* About \$70 M in potential future gain associated with the shares purchased by Ontario Power Generation (OPG).

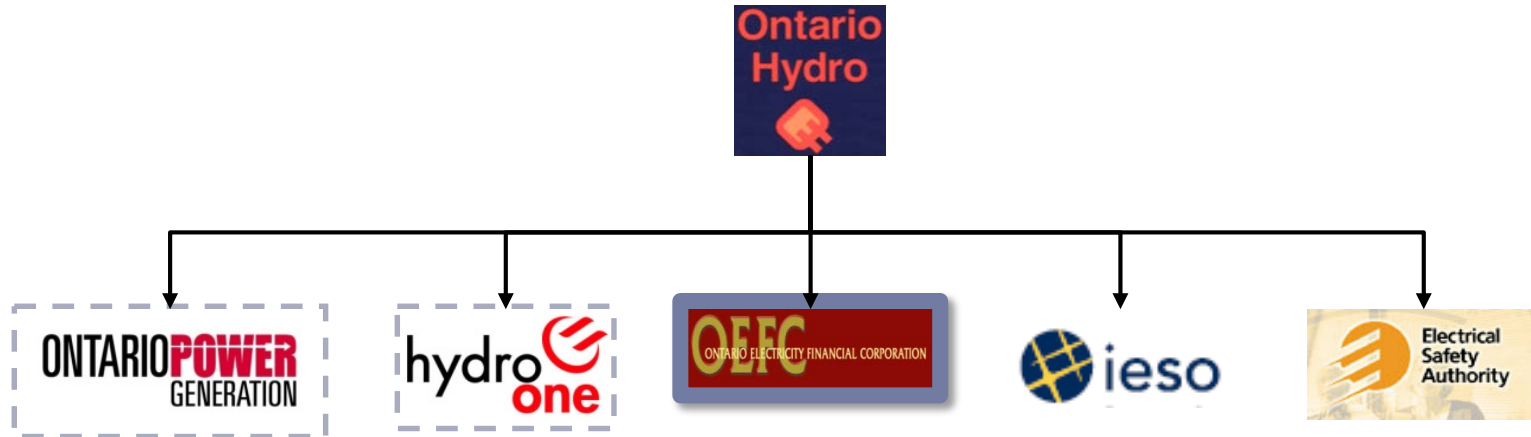
Electricity Sector 1999 Restructuring, Fiscal Interactions & OEFC Financial Assistance

Corporate and Electricity Finance Division
January 2017

Ontario Hydro Financial Restructuring, Stranded Debt, and Residual Stranded Debt

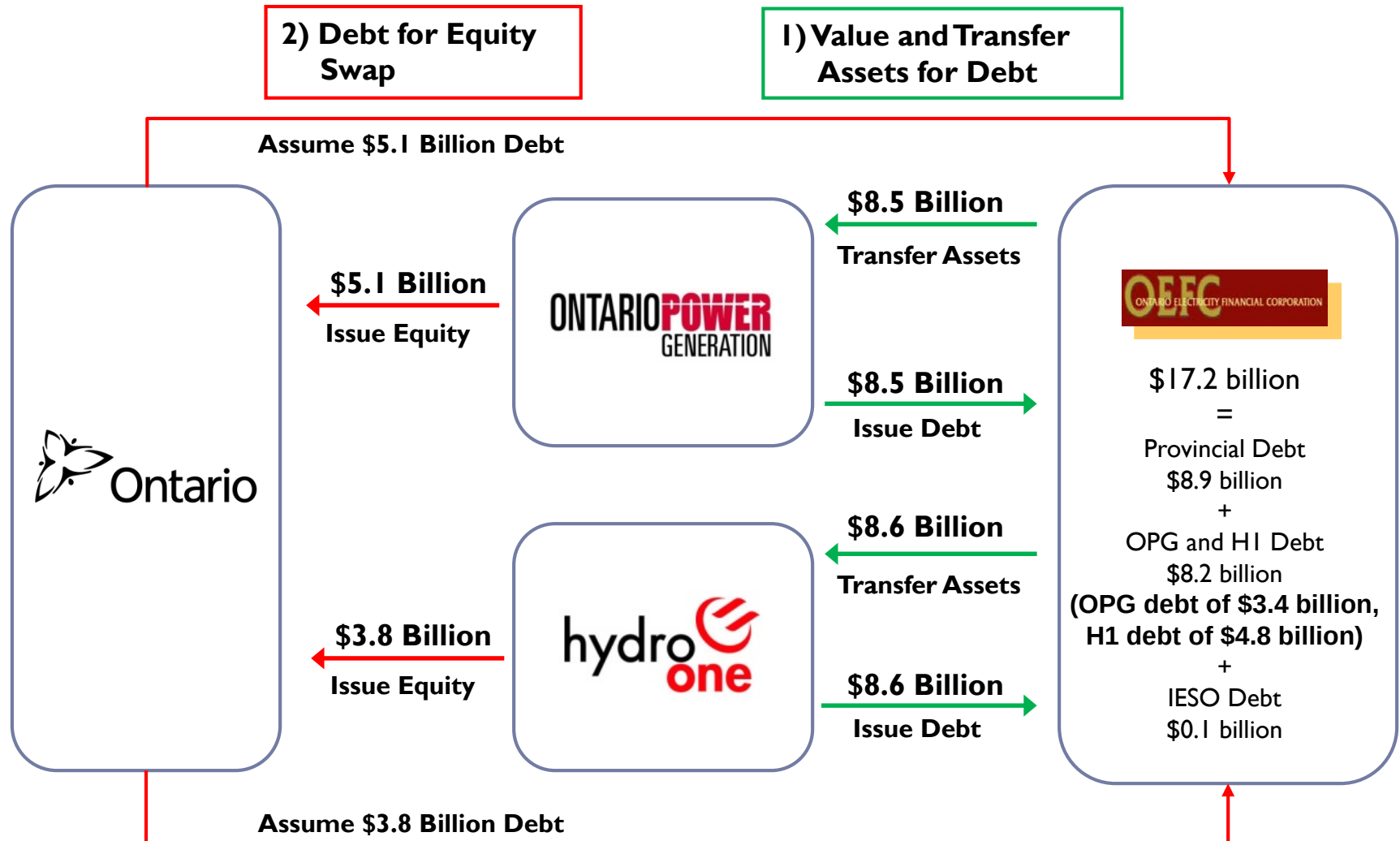
Context:

Ontario Hydro Successor Entities



- ▶ Ontario Hydro was restructured into five successor companies on April 1, 1999
 - ▶ Ontario Electricity Financial Corporation (OEFC) was established as the legal continuation of Ontario Hydro, managing its debt and other liabilities and is an agency of the Ministry of Finance.
 - ▶ Ontario Power Generation (OPG), Hydro One, and Independent Electricity System Operator (IESO) acquired Ontario Hydro assets (i.e., OEFC assets) by issuing \$17.2 billion in debt to OEFC.
 - ▶ As part of the restructuring, the Province became the sole shareholder of OPG and Hydro One through a debt-for-equity swap, assuming \$5.1 Bn and \$3.8 Bn of their debt owed to OEFC respectively, in exchange for 100% of the shares in the companies.
 - ▶ On November 5th, 2015, the Province proceeded with an initial public offering (IPO) of about 15 per cent of Hydro One, and an additional about one per cent to union trusts, and a secondary offering for 14% in April 2016, with plans to undertake subsequent share sales over time, totalling up to 60 per cent of its voting securities in Hydro One.
-

Province Sole Shareholder of OPG and Hydro One: Initial Debt-for-Equity Swap, April 1, 1999

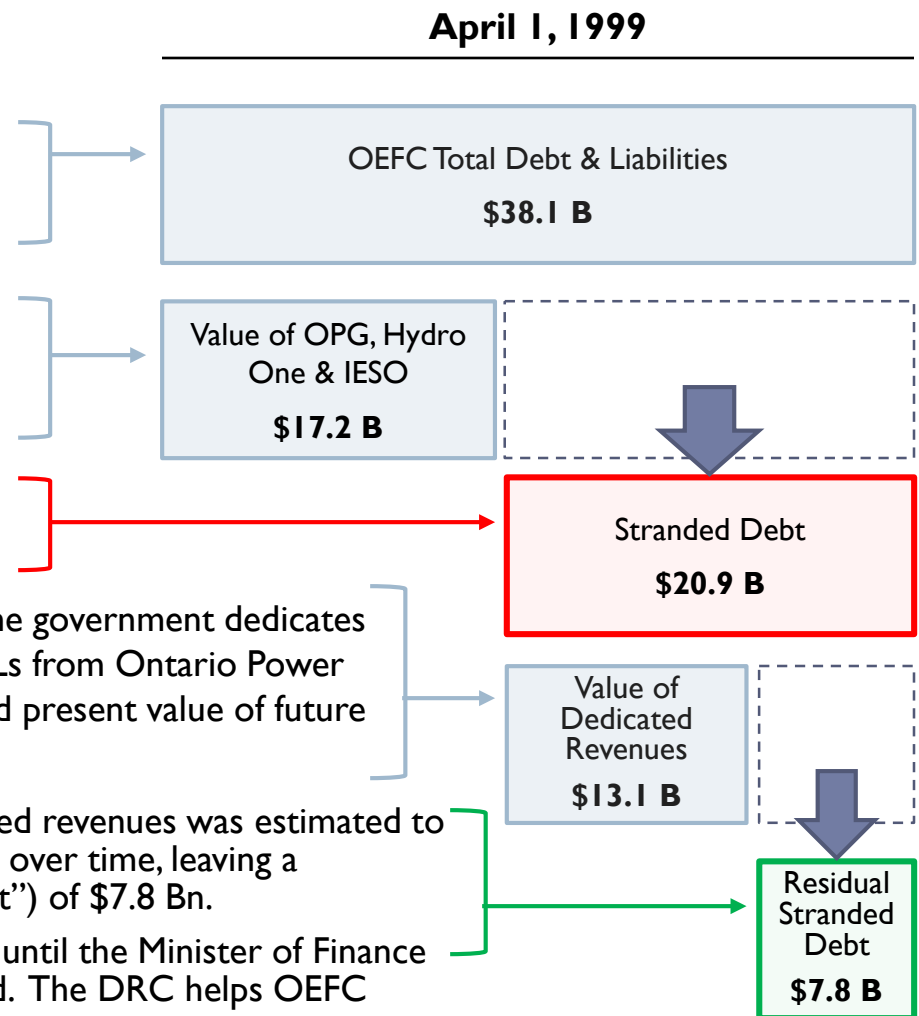


Ontario Electricity Financial Corporation

- ▶ Ontario Hydro was legally continued as OEFC, a Crown Agency, with the following objects as provided under the Electricity Act, 1998:
 - ▶ Managing its debt and derivatives portfolio, financial risks and other liabilities, including the debt of the former Ontario Hydro
 - ▶ Managing the administration of the existing power purchase agreements (PPAs) with non-utility generators (NUGs) in the current market environment
 - ▶ Receiving all payments and administering other assets, liabilities, rights and obligations of the Corporation that have not been transferred to another of the Ontario Hydro successor corporations
 - ▶ Providing financial assistance to the successor corporations of Ontario Hydro, including OPG, IESO, and Hydro One
 - ▶ Entering into financial and other agreements relating to the supply and demand management of electricity in Ontario
 - ▶ Performing any additional objects as specified by the LGIC
- ▶ OEFC's Board of Directors is appointed by the LGIC and is accountable to the Minister of Finance through the Chair (typically the Deputy Minister of Finance).
- ▶ OEFC retains the services of the Ontario Financing Authority and the Ministry of Finance to carry out its daily operations on a cost-recovery basis.

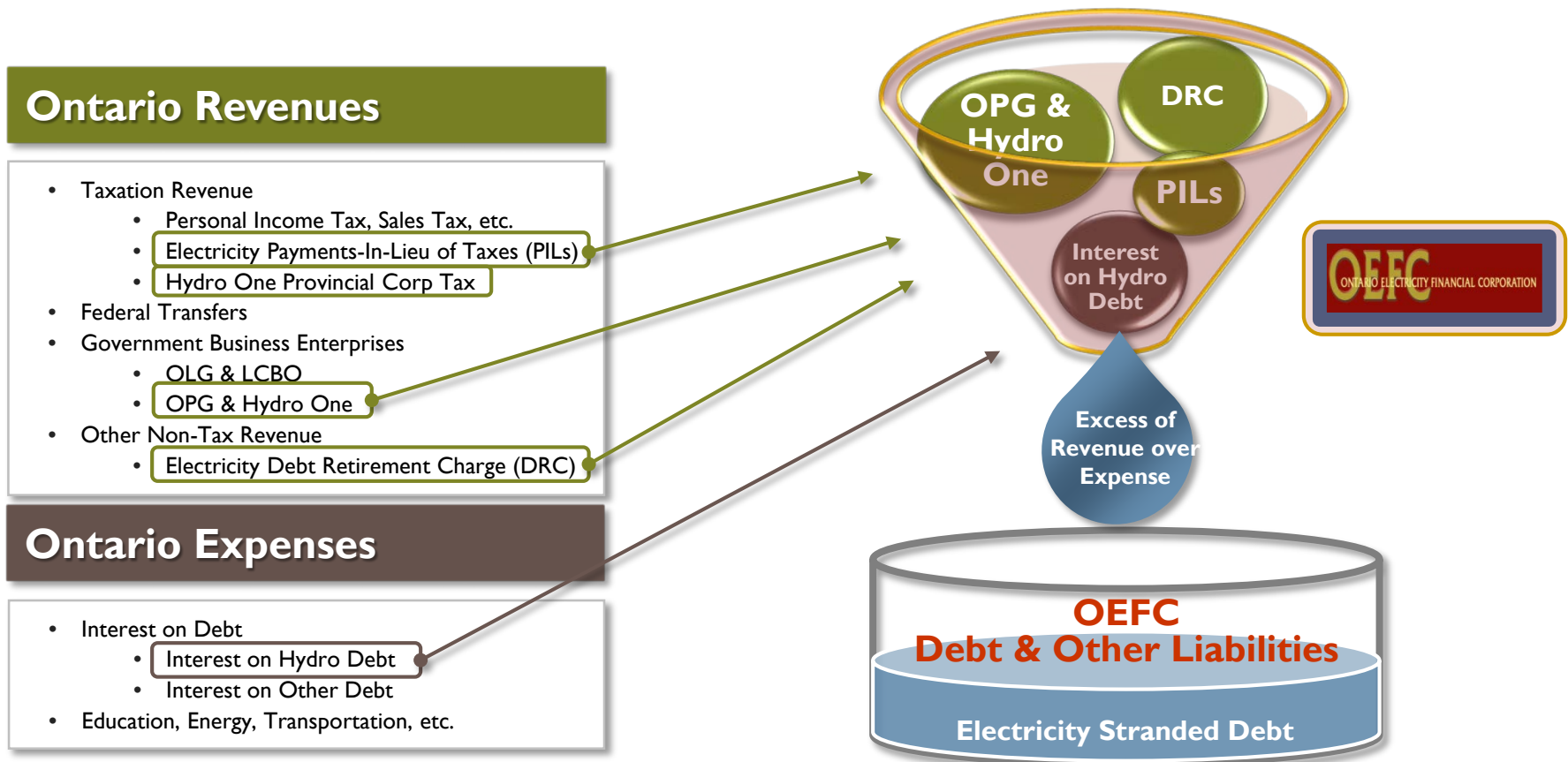
Stranded Debt & Residual Stranded Debt: April 1, 1999

- ▶ Stranded debt and residual stranded debt arose out of restructuring of the old Ontario Hydro on April 1, 1999, under the *Electricity Act, 1998*.
- ▶ OEFC, the legal continuation of the old Ontario Hydro, inherited its debt and certain liabilities, totalling \$38.1 Bn.
- ▶ The old Ontario Hydro's assets were re-valued at \$17.2 Bn, to reflect the new structure of the electricity sector.
- ▶ This left a shortfall or "stranded debt" of \$20.9 Bn as at April 1, 1999.
- ▶ To help OEFC service and retire this stranded debt, the government dedicates revenues from the electricity sector to OEFC {e.g., PILs from Ontario Power Generation (OPG) and Hydro One}, with an estimated present value of future dedicated revenues of \$13.1 Bn, as at April 1, 1999.
- ▶ The estimated value of these projected future dedicated revenues was estimated to be insufficient to completely pay off the stranded debt over time, leaving a difference (the initial estimated "residual stranded debt") of \$7.8 Bn.
 - ▶ The Electricity Act allowed for the DRC to be paid until the Minister of Finance determined the residual stranded debt to be retired. The DRC helps OEFC service and pay down its debt and other liabilities.



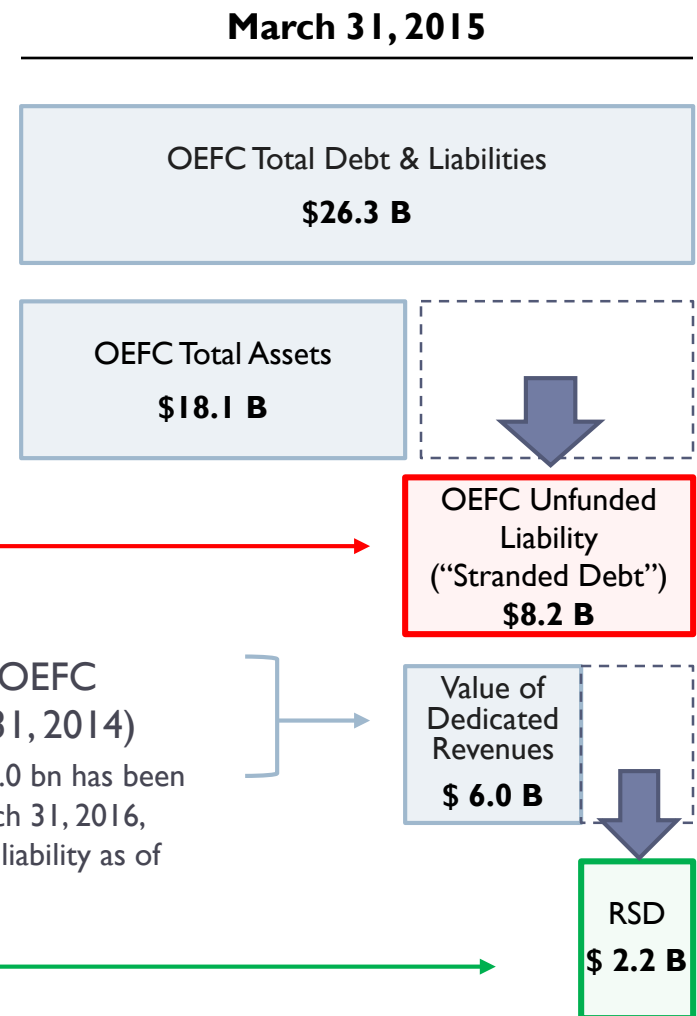
Electricity Sector Revenues: Part of a “Closed System” via OEFC

- ▶ OEFC manages certain dedicated Provincial electricity sector revenues and expenses, and services and pays down its electricity debt to reduce the stranded debt of the electricity sector



Residual Stranded Debt: March 31, 2015

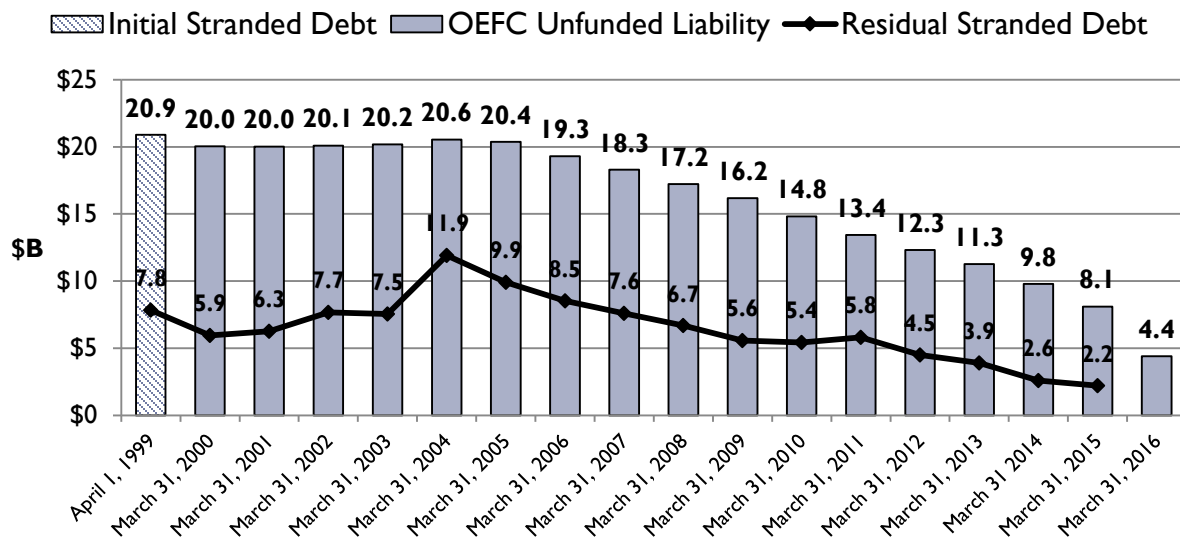
- ▶ Prior to the amendments to the Electricity Act in December 2015, “residual stranded debt” was defined under the Act and Ontario Regulation 89/12 as the stranded debt less the estimated present value of projected future PILs, gross revenue charge (GRC), and electricity sector dedicated income (ESDI) to be paid to OEFC.
- ▶ The residual stranded debt was, therefore, not a fixed, one-time determination and was subject to risk and uncertainty, and is affected by the
 - ▶ Updated amount of stranded debt (down to \$8.2 Bn, as at March 31, 2015, from \$9.8 Bn, as at March 31, 2014)
 - ▶ Updated estimated value of future dedicated revenues to OEFC (\$6.0Bn, as at March 31, 2015 – was \$7.2 Bn as at March 31, 2014)
(Note: “Future” included April 1, 2015 going forward, so much of the \$6.0 bn has been since realised with actual dedicated revenues from April 1, 2015, to March 31, 2016, affecting the OEFC’s bottom line in 2015-16 and reducing the unfunded liability as of March 31, 2016).
- ▶ Residual stranded debt estimate as at March 31, 2015. (\$2.6 Bn as at March 31, 2014)



Residual Stranded Debt since April 1, 1999

- ▶ The following chart illustrates the path of residual stranded debt from the initial reported value of \$7.8 billion as at April 1, 1999, to the estimated \$2.2 billion as at March 31, 2015
- ▶ For eleventh consecutive year, the stranded debt has been reduced
- ▶ To March 31, 2015, RSD declined by \$9.7 billion since its estimated peak of \$11.9 billion at March 31, 2004

Residual Stranded Debt since April 1, 1999

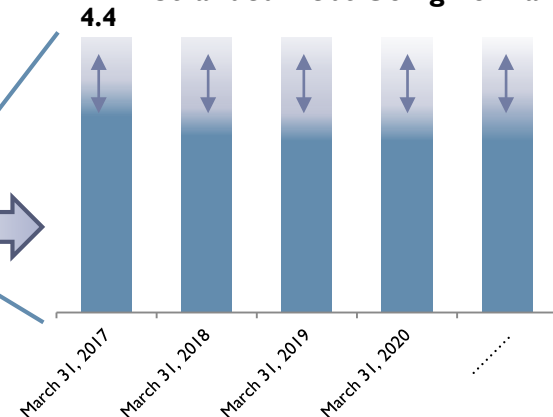


Note: Other than the initial reported value in 1999, residual stranded debt has only been officially determined since March 31, 2011, under O. Reg. 89/12. The previous residual stranded debt values are estimates and were first included in the 2012 Ontario Budget.

RSD Value as at March 31, 2015 is an estimate.

- ▶ Stranded Debt defeasance was subject to uncertainty. It depended on
 - ▶ Future performance of OPG, Hydro One, MEUs; interest rates, tax rates; electricity demand
 - ▶ Broadening Hydro One ownership
- ▶ Stranded debt continues to exist beyond 2018, with estimated paydown going-forward; pace will depend on actual results
 - ▶ Drop in 2015-16 driven by deferred tax benefit impact
 - ▶ Decline slows after DRC ends as at April 1, 2018

Stranded Debt Going Forward



Illustrative uncertainty on estimated levels of projected Stranded Debt, not to scale

Ending the DRC: Budget Measures Act

- ▶ The Electricity Act, 1998, as originally enacted, had provided for the DRC to be paid by consumers until the residual stranded debt is retired.
 - ▶ The estimated amount and retirement of residual stranded debt is subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of OPG and Hydro One as well as other factors
 - ▶ As announced previously, the government removed the DRC cost from residential users' electricity bills as of January 1, 2016, saving a typical residential user about \$70 per year.
 - ▶ In addition, the government provided certainty for all other users by legislation, passed in December 2015, that will end the DRC for commercial, industrial and all other electricity users as of April 1, 2018.
 - ▶ This is nine months earlier than the previously announced end date estimated to be by the end of 2018.
 - ▶ The end of the DRC on a fixed date provides more certainty to commercial, industrial and other users with respect to their electricity costs and investment decisions
 - ▶ OEFC will continue to receive DRC revenues up to April 1, 2018, thus achieving a balance between making progress in paying down the electricity sector stranded debt and mitigating cost pressures for and providing more certainty to non-residential electricity users.
 - ▶ OEFC will continue to provide an Annual Report, including financial statements, audited by the Auditor General.
-

Prior Determinations of Residual Stranded Debt

Revoked Ontario Regulation 89/12

- ▶ On May 15, 2012, the government filed Ontario Regulation 89/12 under the Electricity Act, governing the Minister of Finance's determination of the residual stranded debt, consistent with recommendations of the Auditor General in his 2011 Annual Report that the residual stranded debt be determined and published in the near future.
 - ▶ Prior to the regulation, RSD had not been formally determined and publicly provided since the initial estimate as at April 1, 1999.
 - ▶ In accordance with the regulation, the residual stranded debt was calculated as the stranded debt minus the present value of projected future PILs, Gross Revenue Charge (GRC) from hydroelectric stations, and electricity sector dedicated income to be paid to OEFC in respect of the net incomes of OPG and Hydro One.
 - ▶ Also, the Minister of Finance was to determine the amount of the residual stranded debt for each fiscal year end, and publish in the Ontario Gazette, after the OEFC has submitted its annual report, including the audited financial statements, to the Minister, and before the next fiscal year end.
- ▶ Auditor General's annual reports for 2012 and 2013 indicated the AG was pleased with this increased level of transparency.
- ▶ Following the legislating of the end date of the DRC as at April 1, 2018, the purpose under the Electricity Act for determining the RSD was removed, and the definition of RSD and other RSD-related sections in the Act were removed.
 - ▶ O.Reg 89/12 has also been revoked as the authority under the Act has been removed.

Other Changes to the Electricity Act, 1998

- ▶ Other Budget Measures Act, 2015 changes to the Electricity Act, 1998 are related to OEFC in the following ways:
 - ▶ A statutory appropriation to enable the Minister of Finance to pay the Ontario Electricity Financial Corporation (OEFC) an amount equal to tax payable by Hydro One Inc. under the Taxation Act, 2007.
 - ▶ Continuing to direct to OEFC the payments-in-lieu of incremental property taxes (about \$1 M across all municipalities) currently payable by the MEUs, to the OEFC until it is dissolved.
 - ▶ A change in the definition of municipal electricity utility to include entities exempt from the payment of tax under the Income Tax Act that generate, transmit, distribute or retail electricity in Ontario.
- ▶ Note that while there is no longer in the Act definitions of stranded debt or residual stranded debt, nor an obligation to report on the RSD, the OEFC will continue to provide an Annual Report and report its unfunded liability (often called the stranded debt) in its financial statements.
 - ▶ This provides continued transparency on the amount of stranded debt and the use of dedicated revenues under the Act for servicing and paying down OEFC debt and other liabilities.

Fiscal Interactions with the Electricity Sector

Key Points:

Consolidation of the Electricity Sector

- ▶ The electricity sector has a significant impact on the Province's fiscal position
 - ▶ The Province's electricity sector agencies are each consolidated into the government's financial statements, and directly affect the Province's surplus/deficit position
 - ▶ Ontario Power Generation (OPG) financial results have a dollar-for-dollar impact on the Province
 - ▶ Hydro One financial results have a direct impact on the Province, based on the Province's proportionate ownership.
 - ▶ The Province currently holds about 70 per cent of Hydro One.
 - ▶ Ontario Electricity Financial Corporation (OEFC), an agency of the Ministry of Finance, is consolidated line-by-line into the Province's accounts
 - ▶ OEFC receives certain revenues from within the electricity sector, including the Debt Retirement Charge (DRC), to manage the debt and liabilities of the old Ontario Hydro, including the stranded debt and residual stranded debt
 - ▶ The Minister of Finance has authority under the Electricity Act with respect to the DRC
 - ▶ Other electricity sector entities (Ontario Energy Board – OEB, Independent Electricity System Operator – IESO) are consolidated line-by-line under the Ministry of Energy
 - ▶ These entities are regulated and operated on a cost-recovery basis from the ratebase with no significant fiscal impact
-

Province's Income Statement: Revenues

Revenue (\$ Millions)	2015-16
Government Business Enterprises	
Ontario Lottery and Gaming Corporation	1,995
Liquor Control Board of Ontario	1,831
Ontario Power Generation Inc.	463
Hydro One Inc.	256
	4,812
Other Non-tax Revenue	
Sales and Rentals	2,102
Vehicle and Driver Registration Fees	1,565
Electricity Debt Retirement Charge	859
Power Supply Contract Recoveries	875
Other Fees and Licences	743
Royalties	274
independent Electricity System Operation revenue	221
Net Reduction of Power Purchase Contract Liability	172
Local Services Realignment	125
Miscellaneous Other Non-Tax Revenue	1,857
	8,793
Taxation Revenue	
Personal Income Tax	31,141
Sales Tax	23,455
Corporations Tax	11,428
Education Property Tax	5,839
Employer Health Tax	5,649
Ontario Health Premium	3,453
Gasoline Tax	2,459
Land Transfer Tax	2,118
Tobacco Tax	1,226
Fuel Tax	751
Beer and Wine Tax	582
Electricity Payments-In-Lieu of Taxes	3,247
Other Taxes	470
Total Taxation	91,818

OPG and Hydro One net income is consolidated as income from investment in government enterprises

Debt Retirement Charge collected from consumers - shows impact of end of DRC on residential as at Jan 1, 2016

Proceeds from sale of NUG power under power purchase contracts

Draw down of NUG liability

Includes revenues of:
IESO \$240 M (Calendar 2015)
OEB \$49M

OEFC's payments-in-lieu of taxes from OPG, Hydro One, and MEUs consolidated as taxation revenue

Province's Income Statement: Expenses

Total Expense As at March 31 (\$ Millions)	2015-16
Ministry Expense	
Economic Development, Employment and Infrastructure/Research and Innovation	1,134
Education	24,998
Teachers' Pension	1,590
Energy	1,232
Environment	503
Executive Offices	37
Finance	951
Interest on Debt	10,967
Municipal Partnership Fund	513
Power Supply Contract Costs	875
Government Services and consumer Services	608
Health and Long-Term Care	51,067
Labour	304
Municipal Affairs and Housing	1,088
Natural Resources	819
Northern Development, and Mines	701
Northern Industrial Electricity Rate Program	108

Includes expenditures of:
IESO \$212M (Calendar 2015)
OEB \$49M

Includes OEFC interest expense of
\$1,319M

Cost of NUG power purchases (fully offset
by revenue from NUG power sales)

NIER program cost

Province's Balance Sheet

Province of Ontario Consolidated Statement of Financial Position As at March 31 (\$ Millions)	
	2016
Liabilities	
Accounts Payable and Accrued Liabilities	19,361
Debt	327,413
Other Long-Term Financing	14,145
Deferred Revenue and Capital Contributions	10,779
Pension and Other Employee Future Benefits	12,107
Other Liabilities	4,905
	388,710
Financial Assets	
Cash and Cash Equivalents	13,600
Investments	21,765
Accounts Receivable	11,059
Loans Receivable	11,545
Other Assets	1,936
Investment in Government Business Enterprises	23,572
	83,477
Net Debt	(305,233)
Non-Financial Assets	
Tangible Capital Assets	102,536
Accumulated Deficit	(202,697)

Includes OEFC's debt of \$24,345 Millions

Includes OEFC liability for Power Purchase Contracts \$307 Millions

Includes Provincial investment in OPG (\$13,005M) and Hydro One (\$8,347M), totalling \$21,352M (original investment of \$8,885M, plus retained earnings, and adjustments for ONFA funds and as related to Hydro One asset optimization in 2015-16)

Assets and liabilities of IESO, OPA and OEB are consolidated line-by-line in the Balance Sheet

Hydro One IPO Impacts

Hydro One IPO Impacts

The Hydro One IPO and associated share sales totalling about 16% have a significant impact on OEFC in 2015-16, affecting the excess of revenue over expense, the year-end unfunded liability, as well as future dedicated revenues from payments-in-lieu of taxes and the Province's Electricity Sector Dedicated Income (ESDI). Subsequent planned share sales, including the secondary offering in April 2016, would also have an impact.

Revenue Impacts

▶ **PILs:**

- ▶ **Upfront:** Hydro One IPO incurred \$2.6 Bn departure tax as well as \$200 M incremental PILs in 2015 to OEFC. These, however, will lower Hydro One's net income and ESDI; therefore, departure tax and incremental PILs are revenue neutral in OEFC's income statement.
- ▶ **On-going:** Hydro One is no longer subject to PILs regime. These payments are expected to be lower than current PILs payments as OEFC will now only receive provincial corporate taxes from Hydro One Inc.

▶ **ESDI:** ESDI is one of the dedicated revenues the government provides OEFC to service and pay down the electricity stranded debt.

- ▶ ESDI will for 2015-16 and onward be reduced because of the departure tax and incremental PILs payments. ESDI will also be affected upward by the impact of a deferred tax benefit Hydro One will recognise, affecting its net income.
- ▶ Hydro One's net income was fully combined into the ESDI calculation before the IPO. As the government starts broadening ownership in Hydro One, first with the IPO, and then subsequent sales, totalling up to 60% of the ownership, the Province's corresponding portion of Hydro One's net income would be reduced by about \$50M in 2015-16 and \$470M once 60% has been sold [all figures are estimates].

▶ **Electricity Act Section 50.3:** the net amount payable to OEFC from a Hydro One IPO is calculated as the gross proceeds less transaction costs, the acquisition cost of the shares to the Province and amounts which have been allocated by the Province to OEFC in respect of the proportionate amount of shares. [s.50.3 amount was \$172M in 2015-16].

Hydro One IPO Impacts (cont.)

Balance Sheet / Cash Flow Impacts

▶ **Book Value of Share Sale Proceeds:**

- ▶ The government has committed to using the proceeds of sale up to the book value (about \$1.0 bn) to pay down electricity sector debt and payables. This is expected to be in proportion to the share percentage sold.
- ▶ The cash can be used to pay down OEFC's long term debt. No direct net impact on OEFC's unfunded liability, as it exchanges one asset on the balance sheet for another.
 - ▶ **Notes Receivable:** Due to the debt for equity swap, government owes about \$3.8 bn to OEFC with respect to Hydro One. IPO proceeds will be allocated to pay down the notes receivable from the Province.
 - ▶ **Due from Province:** Proportionate share of cumulative past ESDI payable to be paid down.

- ▶ **Pre-IPO Special Dividend:** The Province received a special dividend payment of \$800 million from Hydro One prior to its IPO. OEFC has received this amount for against the Due from Province.

Expense Impact

- ▶ **Interest on Debt:** Hydro One IPO proceeds up to book value allocated to OEFC would generally allow earlier retirement of OEFC's long term debt over time, reducing its interest expense going forward.

OEFC Balance Sheet: Qualitative Impact

(as if as at March 31, 2015)

Pre Transaction

	(\$ millions)	March 31, 2015
Assets		
Current Assets		264
Payments-in-lieu of tax Receivable		207
Due from Province of Ontario ("ESDI")		4,903
Notes and Loans Receivable		
From the Province from Acquiring Hydro One Equity	3,759	
Other	8,996	12,755
		18,129
Liabilities		
Current Liabilities		515
Debt		25,320
Power Purchase Contracts		479
		26,314
UNFUNDED LIABILITY		(8,185)

Transaction

Cash goes up from

- proceeds, up to the book value ≈\$1.0 Bn
- Pre-IPO dividend \$0.8 Bn
- Departure tax & PILs \$2.8 Bn

go to OEFC

Cash of book value and dividends would pay down Province's payables to OEFC

- Dedicated income in respect of Hydro One net income since 1999 (ESDI)
- Note payable due to H1 equity acquisition

So these OEFC asset values fall by a total amount equivalent to the cash payment above

Also, departure tax & additional PILs reduce ESDI, so net neutral

Debt would be reduced /forgiven by the Province,* under benefit of the Hydro One share sale as per s.50.3 of the Electricity Act

=
Reduction in Unfunded Liability ("Stranded Debt")

As a subsequent step, OEFC cash received would enable OEFC to reduce its debt outstanding.

No net change to OEFC Assets
Therefore, no impact on Stranded Debt

* Amounts will depend on transactions values and OEFC results and Hydro One results over time that may be applied towards / deducted from this balance

OEFC Balance Sheet: Qualitative Impact

(as if as at March 31, 2016)

Post Transaction

	(\$ millions)		March 31, 2015**	March 31, 2016
Assets				
Cash & Cash Equivalents			1	3,425
Accounts & Interest Receivable				
DRC	137		91	
Payments-Lieu of Tax	294		284	
Interest Receivable	30		31	
Other	96	557	91	497
Due from Province (“ESDI”)		4,903		4,281
Notes and Loans Receivable				
OPG	3,665		3,465	
The Province	8,885		8,885	
IESO & NUGs	205	12,755	174	12,524
		18,216		20,727
Liabilities				
Current Liabilities		514		497
Debt		25,320		24,345
Power Purchase Contracts		479		307
		26,313		25,149
Non- Financial Assets				
		(1)		29
UNFUNDED LIABILITY				
		(8,098)		(4,393)

Transaction

Cash went up, in part, from

- proceeds, up to the book value ≈\$1.0 Bn (Pending as of March 31, 2016)
- Pre-IPO dividend \$0.8 Bn
- Departure tax & PILs \$2.8 Bn

go to OEFC

Cash of book value and dividends would pay down Province's payables to OEFC

- Dedicated income in respect of Hydro One net income since 1999 (ESDI)

Also, departure tax & additional PILs reduce ESDI, so net neutral.

No net change to OEFC Assets
Therefore, no impact on Stranded Debt

Debt would be reduced/forgiven by the Province,* under benefit of the Hydro One share sale as per s.50.3 of the Electricity Act
=
Reduction in Unfunded Liability ("Stranded Debt")

As a subsequent step, OEFC cash received would enable OEFC to reduce its debt outstanding.

* Amounts will depend on transactions values and OEFC results and Hydro One results over time that may be applied towards / deducted from this balance.

** 2015 statements have been restated due to errors in remitted GRC payments from some hydro-electric generating stations.

OEFC Income Sheet: Qualitative Impact

(projected 2015-2016 performance vs. actual)

Statement of Operations

(\$ millions)	Budget 2015	Budget 2016	Actuals 2015-16	Difference (Budget vs. Actuals)
Revenue				
Debt Retirement Charge	865	868	859	(9)
Payments-in-lieu of tax:	524	3,232	3,228	(4)
Interest	718	693	723	30
Power Supply Contract Recoveries	793	784	875	91
Amortization of NUG liability	172	172	172	-
Electricity sector dedicated income	492	0*	3	3
Gain to OEFC under s. 50.3	-	150	172	22
Miscellaneous	5	5	9	4
	3,569	5,904	6,041	137
Expense				
Debt interest	1,344	1,344	1,319	(25)
Demand Management Support Costs	8	9	8	(1)
Power Supply Contract Costs	793	784	875	91
Debt Guarantee fee	127	127	127	-
Operating	6	6	7	1
	2,278	2,270	2,336	(66)
Excess of Revenue over Expense	1,291	3,634	3,705	71

HI IPO Impacts

PILs goes up from

- Departure Tax \$2.6 Bn
- Additional PILs \$0.2 Bn
- CIT vs PILs ~(\$50 M)

* ESDI projection during budget 2016 included:

- Lose 16% Hydro One net income (\$47 M)
- Deferred Tax Benefit added \$2.1 Bn
- Departure Tax (\$2.6 Bn)
- Additional PILs (\$0.2 Bn)
- Saving of interest cost \$22 M

Note: In 2015-16, the estimated calculated ESDI during Budget 2016 resulted in a negative value of \$263M. The negative balance would have been clawed back against positive values in future periods.

The gains of Hydro One share sale as per s.50.3 of the Electricity Act \$172 M



OEFC's Financial Assistance: OPG & IESO



Context

- ▶ The mandate of the Ontario Electricity Financial Corporation (OEFC) includes providing financial assistance, as needed, to the successor corporations of the former Ontario Hydro, as well as Hydro One Brampton.
 - ▶ The successor corporations are Ontario Power Generation (OPG), Hydro One, the Independent Electricity System Operator (IESO), and the Electrical Safety Authority (ESA).
- ▶ As at April 1, 1999, OEFC had notes receivable from OPG of \$3.4 billion, Hydro One of \$4.8 billion and IESO of \$78 million.
- ▶ As at March 31, 2016, OEFC had notes receivable from OPG of \$3.5 billion and IESO of \$90 million.
 - ▶ OPG amounts outstanding reflect 10 to 30 year loans, with OPG also having credit facilities in place to support future borrowing.
 - ▶ IESO amounts outstanding reflect a three year loan plus amounts borrowed under a three year revolving credit facility.
 - ▶ Hydro One currently has no debt outstanding owing to OEFC.

OEFC Notes Receivable (Successor Companies)

\$ millions	April 1, 1999	March 31, 2016	Maturity Date(s)
OPG	\$3,400	\$3,465	2016–2042
IESO	\$78	\$90	2017
Hydro One	\$4,845	\$0	-
Total	\$8,323	\$3,555	

OPG Borrowing Summary

- ▶ OEFC has agreed to provide OPG financing for new generation project development in the form of 10-year and 30-year notes on commercial terms and conditions.
 - ▶ For example, OEFC agreed to provide up to \$1.6 billion in loans for the Niagara tunnel project (\$1,065 million provided) and up to \$400 million in loans for the Portlands Energy Centre (\$390 million provided).
- ▶ OEFC has been OPG's sole source of financing for general corporate purposes and refinancing maturing debt.
- ▶ About 70 per cent of OPG's debt is held by OEFC, with the remaining 30 per cent in the form of non-recourse project financing obtained through public markets for certain projects.

Maturity (Fiscal Year)	Outstanding Amount (\$M)
2016–17	320
2017–18	1,125
2018–19	260
2019–20	505
2020–21	420
2021–22	185
2022–23	130
2023–24	20
2040–41	150
2041–42	350
Total	3,465

Project	Amount Authorized under Loan Agreement	Total Borrowing to Date	Expiry Date of Loan Agreement	Status of Project
Niagara Tunnel	\$1.6 billion	\$1,065 million	Dec 30, 2014	Completed
Portlands	\$400 million	\$390 million	Dec 29, 2009	Completed
Lac Seul	\$50 million	\$50 million	Dec 29, 2009	Completed

OPG Borrowing Summary (cont.)

- ▶ OEFC is currently providing OPG with a credit facility for up to \$800 million for general corporate requirements, including the Darlington refurbishment project, and for up to \$700 million in support of OPG's equity commitment in the Lower Mattagami project.
 - ▶ On November 22, OPG borrowed \$100 million from the facility with \$50 million for a 10 year term and \$50 million for a 30 year term.
 - ▶ The current corporate credit facility expires December 31, 2016 and the Lower Mattagami credit facility expired on June 30, 2016.
- ▶ OEFC signed a credit facility agreement for \$700 million in June 2016 with the facility effective from January 1, 2017 to the end of 2017.
- ▶ OPG has, from time to time, expressed interest in increasing its ability to borrow from public capital markets, including refinancing existing debt currently held by the Province.
 - ▶ The position of the Province thus far has been for OPG to continue borrowing from OEFC for general corporate purposes.

Project	Amount Authorized under Loan Agreement	Total Borrowing to Date	Expiry Date of Loan Agreement	Status of Project
Lower Mattagami	\$700 million	-	June 30, 2016	Completed
Corporate Credit Facility	\$800 million	\$100 million	Dec 31, 2016	Completed
Corporate Credit Facility	\$700 million	-	Dec 31, 2017	On-going

IESO Borrowing Summary

- ▶ Debt of \$78.2 million was issued by the IESO to OEFC in 1999 as part of the electricity market restructuring in exchange for the assets transferred to the IESO.
 - ▶ OEFC and the IESO have been rolling over this note receivable since the original 1999 issue.
 - ▶ In April 2014, OEFC refinanced the note receivable with the IESO for a three year term, increasing the principal outstanding from \$78.2 million to \$90 million to reflect revised long-term cash flow needs.
- ▶ OEFC has also provided the IESO with a revolving credit facility since April 30, 2010 for liquidity purposes and to temporarily fund corporate requirements. The initial credit facility limit was set at \$60 million but was increased to \$110 million in 2011.
 - ▶ In April 2014, OEFC extended the expiry date the facility to April 30, 2017, and decreased the credit facility from \$110 million to \$95 million to reflect the higher loan principal from above and rebalance short- and long-term funding.



	Expiry	Borrowing as at Oct. 31, 2014
Loan	April 30, 2017	\$90 million
Revolving Credit Facility	April 30, 2017	\$80 million

Outlook: OPG and IESO Borrowing

- ▶ Based on OPG's most recent rate application (and 2016-18 business plan), OPG plans to borrow \$200 million before year end under its \$800 million credit facility with OEFC for general corporate purposes.
- ▶ OPG has requested financing for the calendar years 2017 and 2018. OPG's borrowing requirement over this period could be up to \$3 billion and the credit facility for 2017 has been put in place:
 - ▶ OPG's 2016 - 2018 Business Plan projects financing needs of \$400 million in 2016, \$1,500 million in 2017, and \$850 million in 2018, with Darlington refurbishment expenditures expected to average about \$1,179 million per year between 2016 and 2018.
 - ▶ The borrowing requirement is also dependent on OPG's rate application, currently with the OEB.
- ▶ As of January 1, 2015, the government merged the IESO and the Ontario Power Authority (OPA) into a single organization, which continued to be called the IESO, and OEFC continues to provide funding to the IESO under the existing credit facilities following the merger.

From: [Gavin He](#)
To: [Christina Zhang](#)
Subject: RE: OEFC Business Plan
Date: Tuesday, February 28, 2017 9:24:40 PM
Attachments: [OEFC 2017-20 Business Plan Draft_2017 02 15_OFA CEFD_v4_Markup.docx](#)

Hi Christina,

Please find attached the updated OEFC Business Plan for Gadi's review and approval.

CEFD has made some update to reflect the feedback from the OEFC board meeting and the attached version is approved by Ron.

Please note that this is due back to AAD **tomorrow, March 1st, 2017**.

Thanks,
Gavin He

From: Caroline Swerdlyk
Sent: Thursday, February 23, 2017 3:41 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mara Collins <Mara.Collins@ofina.on.ca>
Subject: OEFC Business Plan

Hi Gavin,

The OEFC Board approved the business plan today, subject to changes that Ron is aware of, including adding to the Executive Summary OEFC achievements in paying-down debt, NUG curtailments and elimination of the DRC. (There was also a typo noted on p. 12 – the spelling of “decisions” needs to be corrected.)

We understand that you will work with Ron to finalize the Business Plan for submission to the Minister of Finance in accordance with the AAD deadline. If there are any further substantive changes made to the Business Plan that are approved by the CEO, please advise as they will need to be reported at the next Board meeting.

If you have any questions, please let me know.

Thanks,
Caroline
5-8141



2017-20 BUSINESS PLAN

Approved by the Board of Directors

Date

Approved by the Minister of Finance

Signature
The Honourable Charles Sousa
Minister of Finance

Date

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Executive Summary

The Ontario Electricity Financial Corporation (OEFEC, or the Corporation) is responsible for the management of the debt and certain other liabilities of the former Ontario Hydro. The OEFEC assumed approximately \$38.1 billion in debt and other liabilities of the former Ontario Hydro when it was restructured on April 1, 1999. A portion of the \$38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving \$20.9 billion of "stranded debt" not supported by those assets (and an initial unfunded liability of \$19.4 billion, when taking into account other OEFEC assets as at April 1, 1999).

As at March 31, 2016, total debt and liabilities amounted to \$25.1 billion, and OEFEC's unfunded liability was reduced to \$4.4 billion. And, based on the Province's 2016 Budget projections for OEFEC in 2016-17, the OEFEC projected excess of revenue over expense of about \$0.6 billion would further reduce the unfunded liability by that amount, which would mean 2016-17 would be the thirteenth consecutive year that the stranded debt has been reduced.

Overview of 2016-17 Results

The Ontario Electricity Financial Corporation (OEFEC) accomplished the following key objectives presented in its 2016-19 business plan.

1. Manage debt and other liabilities cost-effectively
 - Continued to manage OEFEC's debt and other liabilities, with debt outstanding of \$23.0 billion as at October 31, 2016.
 - The Corporation's projected results are for a continued reduction in the unfunded liability in 2016-17, by an estimated \$0.6 billion, even as OEFEC has had to manage with reduced revenues from the Debt Retirement Charge (DRC) as the 2016-17 is the first full year of the elimination of the DRC for residential customers.
2. Manage financial risk within approved policy limits
 - Maintained a zero foreign exchange exposure on outstanding debt principal and maintained net interest rate resetting exposure within policy limits.
3. Manage and administer the OEFEC power supply and demand management contracts
 - In 2016-17, to the end of October, achieved \$12.8 million in cost-savings through curtailments.
 - Continued to manage and implement a contract with the Independent Electricity System Operator (IESO) in support of its Industrial Electricity Incentive (IEI) demand management program.
 - Supporting an IESO initiative, under which the IESO was complying with a direction from the Minister of Energy, OEFEC terminated three and suspended two gas-fired non-utility generator (NUG) power purchase agreements (PPAs). This allowed those NUGs to enter into curtailment agreements with the IESO that provide an incentive to NUGs to operate in a manner that is better aligned with the integrated power system's needs, reducing OEFEC costs, costs to ratepayers, and lowering carbon emissions.
4. Provide financial assistance, as required, to the Ontario Hydro successor corporations

- Continued to monitor and implement financial assistance from OEFC to Ontario Power Generation (OPG), including a \$700 million credit facility up to December 31, 2017, for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project. This credit facility is expected to be increased to \$1.5 billion up to December 31, 2017, with further availability thereafter until December 31, 2018.
 - Continued to monitor and provide analysis and advice on the credit facility between the IESO and the OEFC.
5. Support the implementation of the government's electricity industry policies and determine the impact on the OEFC
- Continuing to support the IEI program.
 - Projections for 2016-17 in Budget 2016 show an excess of revenue over expense of about \$0.6 billion, which would reduce the Corporation's unfunded liability (or stranded debt) to below \$4 billion. This would be the thirteenth consecutive annual decline in the unfunded liability.
 - Provided support for the implementation of the government's policy on broadening Hydro One ownership, including the dedication of proceeds related to the book value of shares sold towards paying down the Province's electricity sector debt and other payables with OEFC and financial benefits provided by the Province to OEFC as per section 50.3 of the *Electricity Act, 1998*.

Key Objectives for 2017-2020, consistent with its mandate letter from the Minister of Finance, include the following:

- Manage debt and other liabilities cost-effectively.
- Manage financial risk within approved policy limits.
- Manage and administer the non-utility generator (NUG) contracts and demand management contracts.
- Manage and administer a contract with IESO in support of its Industrial Electricity Incentive (IEI) demand management program.
- Provide financial assistance, as required, to the Ontario Hydro successor corporations.
- Support the implementation of the government's electricity industry policies and determine the impact on the OEFC.

Governing Legislation and Mandate

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): Ontario Power Generation Inc. (OPG), Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and the OEFC.

Pursuant to the Act, the OEFC's mandate includes the following:

- Managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro.
- Managing the former Ontario Hydro's NUG contracts.
- Receiving all payments and administering other assets, liabilities, rights and obligations of the former Ontario Hydro 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 and a distributor owned or controlled, directly or indirectly, by Her majesty the Queen in Right of Ontario and licensed by the Ontario Energy Board.
- Entering into financial and other agreements relating to electricity supply or management of electricity demand, in Ontario.
- Performing any additional objects as specified by the Lieutenant Governor in Council.

Strategic Directions and Performance Measures

1. Manage Debt and Other Liabilities Cost-Effectively

Objective	Performance Measure	Targets
Manage financing requirements in a sound and efficient manner. The OEFC manages the debt and liabilities of the former Ontario Hydro, with total debt of \$24.3 billion as at March 31, 2016. The 2017-18 Financing, Debt and Electricity Management Plan for the Province and the OEFC will detail strategies and operational objectives on how the OEFC will manage its debt portfolio. The plan will reflect considerations such as investor demand, market structure, interest rate outlooks, OEFC cash flows and debt maturity constraints.	For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. Performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The OEFC has existing long-term debt maturities totalling \$2.1 billion, \$0.7 billion, and \$1.4 billion in 2017-18, 2018-19 and 2019-20 respectively. The requirement for refinancings or new borrowings will take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One, as well as any loan requirements from OPG. The strategy for OEFC's borrowing requirement will be presented in the 2017-18 Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by Internal Audit Division.
Working with OPG and Hydro One to effectively manage claims against OEFC and Hydro One or OPG relating to the former Ontario Hydro's federal permits and related facilities on First Nation Reserves ("Permit Claims"). (Hydro One and OPG maintain most of these facilities; however, in some cases, legal title remains in OEFC as the continuation of Ontario Hydro.)	Permit Claims are defended or settled without liability to OEFC. OEFC is released from liability relating to Permit Claims.	OEFC is not required to make any payments under any judgement or settlement of a Permit Claim. All settlements of Permit Claims by Hydro One/OPG also include a release of OEFC.

2. Manage Financial Risk within Approved Policy Limits

Objective	Performance Measure	Targets
Manage the debt portfolio within exposure policy limits. Exposures are expected to remain within policy limits throughout 2016-19.	The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.
Setting risk management policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for Market Risk, Credit Risk, Use of Derivatives and Other Financial Instruments, and Risk Management Reporting are regularly reviewed and updated annually. Interest and FX rate exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Objective	Performance Measure	Targets
Minimize NUG costs to ratepayers by utilizing arrangements such as curtailment or incremental power transactions.	The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.
Negotiate any necessary revisions to the NUG contracts.	Successful negotiation of revisions to the contracts necessary to ensure that the contracts are consistent with the current electricity market environment and government policy. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy.
Provide effective administration of NUG power purchase agreements (PPAs).	Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee the performance of the meter service provider under contract to OEFC, to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing contract terms, electricity market rules and standards.	Maintain and improve operational systems, applications and infrastructure as required. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Provide operational and market settlement information and advice in support of legal proceedings, renegotiation of contracts and energy curtailments as required.

Objective	Performance Measure	Targets
Administer the OEFC's obligations to provide the IESO support for its DRC offset payments made under the IEI demand management program.	Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Objective	Performance Measure	Targets
Facilitate the cash flow requirements of the successor corporations.	Review and analyze requests from successor companies to ease cash flow constraints. Review and analyze requests from OPG to provide flexibility in debt term structure.	Provide and monitor credit facilities to OPG and IESO, as needed, for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required, including greater access to 30-year borrowing for OPG.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Objective	Performance Measure	Targets
Monitor the financial performance of the successor electricity corporations. Monitor, review and respond to developments and/or government policy initiatives in the electricity sector.	Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the DRC, payments in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and continue to monitor and analyze Hydro One's financial results. Meet operational requirements on a timely basis to implement the government's policy initiatives. Provide analysis and advice on the financial impacts on OEFC from broadening ownership of Hydro One.

Objective	Performance Measure	Targets
Timely and accurate financial reporting.	Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Continue to review the long-term OEFC model.
Implement Directives from the Minister of Finance.	Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.

Risk Identification, Assessment and Mitigation Strategies

Risk Category: STRATEGIC				
RISK AREA: Strategic/ Policy/ Performance Risk: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with OPS policies). The risk that strategies and policies fail to achieve required/ targeted results. The risk of not providing value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence / Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Electricity Policy Changes	Government policy changes that could result in additional responsibilities for the OEFC, or have a net impact on OEFC through changes in cash flows or dedicated revenues to OEFC.	Medium / Medium	Medium	Monitor, assess and respond to developments in support of the government's electricity plan. Corporate and Electricity Finance Division (CEFD) provides financial, fiscal impact and policy analysis and advice to the Deputy Minister and Minister of Finance on the electricity sector, including the fiscal impacts on the Province of proposed government policies. CEFD staff also provide on-going financial and fiscal impact analysis to other divisions in the Ministry of Finance and TBS, including OTB, OPCD, OB, OEP, TPD, and CQSD. CEFD and OFA staff support the OEFC by providing financial analysis and advice to the Deputy and Minister to inform government's policy making process, including advice on fiscal impacts from the impact on OEFC and pay down of the stranded debt and potential cost recovery from the rate base.
Strategic Planning (Annual Business Plan)	Strategies and policies fail to achieve required results.	Low/Medium	Medium	A three-year OEFC business plan is approved by the Minister of Finance and OEFC's Board of Directors. Quarterly progress reports are provided to the OEFC's Board and reporting on the achievement of strategic objectives for the previous fiscal year is included in the business plan.

				OEFC monitors the electricity sector environment and provides analysis and advice on policy options which could directly or indirectly have an impact on OEFC and relevant stakeholders. The Ministry of Finance will be consulted before any change is made to OEFC's strategic direction or programs that require ministry and/or TB/MBC approval. The Financing, Debt and Electricity Management Plan for OEFC is developed based on in-depth research and analysis and is adjusted throughout the year as conditions change. The Audit Committee (AC) of the Board works with Ontario Internal Audit Division to ensure that the annual OEFC audit plan allows for the auditors to assist with program design and provides for audits of any high risk aspects of programs.
Meeting Stakeholder Expectations	The risk that OEFC may fail to meet stakeholder expectations, including those of the Province and other public bodies.	Low/Medium	Medium	OEFC manages the former Ontario Hydro's debt and administers the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities, including the Non-Utility Generator contracts, and provides financial assistance to the successor corporations of Ontario Hydro. OEFC is available to meet with any OEFC electricity contract counterparty as required. OEFC senior management maintains regular and frequent contact with the Deputy Minister's Office, the Deputy Minister of Energy and the OEFC Board. This is complemented through quarterly board meetings chaired by the Deputy Minister of Finance and annual reporting to the Minister of Finance through the Business Plan and the Annual Report. OEFC's reporting to external stakeholders is through posting on its website the Business Plan and publishing the Annual Report, and its annual financial statements are included in the Public Accounts of the Province. The OEFC also maintains and updates a website accessible to external stakeholders.

Financial Market Risk	Higher-than-forecast interest rates resulting in higher annual financing charges.	Low/Medium	Low	Manage net interest rate resetting exposure. Diversify the borrowing program by managing its pace and the debt maturity profile. The broadening of ownership of Hydro One has resulted in a significant cash inflow to OEFC to date and as projected. As such OEFC is projected not to engage in borrowing to fund maturing debt in 2016-17 and most likely in the two out years.
Credit Risk	The risk that counterparty defaults on its obligations arising from financial and derivative transactions.	Low/Medium	Low	Reduce exposure to external counterparties with a credit rating of single-A, and lower by using standard credit mitigation techniques, including the possible execution of collateral agreements, re-couponing and terminations. Entities with high potential exposures relative to credit limits will be used sparingly when initiating new swaps. The OEFC's exposure to external counterparties is minimal and will no longer exist post 2016-17 when all derivate contracts with all external counterparties expire.
Dedicated Revenues of the Electricity Sector to OEFC	The amount of dedicated revenues to OEFC affect stranded debt pay down.	Medium/Medium	Medium	OFA/CEFD staff receive and review OPG business plans and monthly financial updates and Hydro One's publicly available financial information and provide projections and analysis, as well as potential options, to the government and OEFC. Monitor and assess the impacts of Hydro One rate applications and decisions, and public financial reporting information. Monitor MEU PILs cash flows and MEU financial statements. OFA jointly manages the nuclear funds. Diversify the nuclear funds investment portfolio globally using a variety of fund managers in different sectors.

Risk Category: ACCOUNTABILITY/GOVERNANCE

RISK AREA: Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, MOU or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Meeting statutory requirements	Risk of non-compliance with statutory requirements	Low/Medium	Low	MOF/OFA Legal Branches, as applicable, advise of statutory changes affecting OEFC operations and key directives are distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO. Non-compliance with applicable laws or regulations would also be reported to the Board quarterly (or sooner, depending on the severity). CEO/Board direct remedial action (which may include training). Ministry/MGS HR personnel would advise on any disciplinary action.
Reliability of financial systems	The risk that the OEFC's financial information and reporting system (through the OFA) is not reliable or fails to meet quality standards.	Low/Low	Low	The OEFC has well-established processes and procedures for monitoring and reporting on its financial performance to its Audit Committee, Board of Directors and to the Ministry. OEFC financials are prepared on a quarterly basis for discussion and approval by the OEFC Audit Committee and Board of Directors. Changes to accounting pronouncements are also addressed during the quarterly discussions. Annual budgets and audited financials are submitted to the ministry as per TBS requirements. Internal controls and financial systems are assessed by both the staff of the Office of the Auditor General and the Province's Internal Audit Division on an annual basis. So far no material issues have been identified.
First Nations Litigation	OEFC, as a legal successor to Ontario Hydro, is at risk of being named in First Nations lawsuits.	Low/Medium	Medium	OEFC is indemnified by OPG and/or Hydro One for any liability in relation to the matters raised in these lawsuits.

NUG litigation	OEFC, as a legal successor to Ontario Hydro, is party to lawsuits by non-utility generators (NUGs) relating to their power purchase agreements (PPAs) originally entered into with Ontario Hydro.	High/Low	Medium	OEFC administers these claims based on appropriate legal advice. The risk is reduced as PPAs expire/terminate. The impact on OEFC is mitigated by legislative amendments in 2005, under which OEFC fully recovers its NUG contract costs through the Global Adjustment. Any costs paid by OEFC are passed through to consumers through the Global Adjustment.

Risk Category: OPERATIONAL

RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Operational Risk	Risk of not effecting settlement of electricity transactions and payments to the NUGs, or other contract counterparties, conducted by the OEFC since January 1, 2005.	Low/Low	Low	Systems, procedures and controls have been in place and continuously improved since inception and staff are adequately trained, with no significant issues.

Risk Category: WORKFORCE				
RISK AREA: Workforce: Operational Workforce Risks				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Collective Agreements/ Worker Compensation/ Salary Settlement Costs	Retention of key skill sets and staff for the roles and competencies they provide to OEFC. Without a unique compensation plan, with base compensation established to ensure retention of key skill sets for Capital Markets and certain Risk Control staff, the OFA would be severely limited in its ability to retain existing staff and would face a near impossible task of attracting external qualified candidates.	Low/High	Medium	Work to achieve and/or maintain the ability, or utilise the available scope, to compensate staff fairly and in comparison to competitors to limit turnover, and in accordance with applicable legislation or compensation directives.

	Compensation for most other OFA positions supporting OEFC are tied to the OPS Management Compensation Plan, which may limit the OFA's ability to attract and retain staff with the required skill sets.			

Risk Category: INFORMATION TECHNOLOGY AND INFRASTRUCTURE

RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Privacy and security	Does the agency handle sensitive/confidential information on behalf of the government? How does the agency reduce the potential compromise of personal data through	Low/Medium	Low	Access to all electronic data requires some form of authentication. Security of electronic and hard copy information is provided by key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a yearly basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply.

	identity theft, or unauthorized electronic or physical access of information?			OFA Trading Restrictions and Disclosure Requirements Policy is provided to OFA staff, along with any additional direction as required (e.g., Hydro One transactions).
Business continuity	What are the processes in place to ensure that critical I&IT systems are available for operation to support business requirements (disaster recovery & business continuity planning)?	Low/Low	Low	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's disaster recovery (DR) site. Critical production systems are routinely run out of the DR site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes remote equipment, remote access services and mobile telephones. Internal Audit Division is conducting an audit of the OFA BCP.

Risk Category: OTHER

RISK AREA: Other Risk: Risk that does not fit in any of the above categories. Corporate Social Responsibility concerns – Environment, Climate Change, Energy Management, Health Promotion, Waste Reduction, Fair Trade practices. Organizational Assets – Facilities and Equipment, Personal Safety, Physical Security. Issues relating to third parties that are involved with the agency such as service or goods providers.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy

Additional risks	How does the agency ensure that consideration of financial risk is an ongoing exercise within the agency; i.e., the potential costs of relationships with third party service providers or suppliers?	Low/Low	Low	As part of procuring service providers and supplies, the OFA's procurement policy requires identification of the cost of the contract over the term, including renewals and consideration of other options.

Environmental Scan: Assessment of Issues Facing the OEFC

Factors that could affect OEFC meeting financial projections or core corporate objectives are described below.

External Factors

- The financial performances of OPG and Hydro One affect OEFC revenues relating to
 - i) the electricity sector dedicated income from the Province, which is the Province's combined net income from OPG and Hydro One in excess of the Province's interest costs of its investment in its electricity subsidiaries, and
 - ii) OPG payments in lieu of taxes (PILs) to the OEFC, and payments to OEFC in respect of Hydro One Inc. provincial corporate income taxes.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through MEU PILs to the OEFC.
- The Ontario Energy Board's (OEB) decisions on regulated rates, including the allowed return on equity, may affect projected OPG and Hydro One's financial performance and MEU PILs.
- Additional financial assistance to OPG may be required in the future, including debt maturity refinancing and new loans.
- The Province's progress in broadening Hydro One ownership will affect the OEFC's dedicated income from the Province related to Hydro One. The dedication of certain proceeds from Hydro One share offerings may affect OEFC's cash flows, refinancing requirements and debt interest costs.

Economic conditions and electricity demand:

- Economic conditions, industrial activity, and higher/lower electricity demand have an impact on the OEFC through net incomes of OPG, Brampton Distribution Holdco Inc. and Hydro One, Hydro One provincial CIT, OPG and MEU PILs, and Debt Retirement Charge (DRC) revenue. An economic downturn/recovery would tend to decrease/increase electricity demand.
- Electricity demand lower than projections in regulatory filings could result in lower revenues for OPG, Hydro One and MEUs in the absence of recovery through variance accounts. In addition, lower demand could trigger curtailments for hydroelectric and nuclear production, potentially resulting in a negative financial impact to OPG if these costs are non-recoverable in rates.
- Lower electricity consumption also results in lower DRC revenues.
- Economic conditions may affect pension costs for OPG and Hydro One. Any pension costs not recovered through electricity rates or deviating from forecasts without recovery through variance accounts would lead to reductions in earnings of OPG and Hydro One.

Financial markets:

- Soft inflation and slowing growth led the Bank of Canada to cut the target overnight rate by 50 basis points in 2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.
- In the United States, the Federal Reserve raised rates for the first time since 2006 at its December 2015 meeting, and again on December 14, 2016, citing a solid labour market and expectations for inflation to rise, in the medium-term, towards its 2 per cent target as reasons for the hike. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, the European Central Bank in January 2017 announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time."
- According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018..
- The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Changes to the government policy environment can affect OEFC revenues and expenses:

- Changes in corporate tax rates would affect OEFC's current and projected future payments-in-lieu of tax revenues to OEFC from OPG and MEUs and current and projected future payments of Hydro One provincial corporate income tax allocated by the Province.
- The government has acted on the Premier's Advisory Council on Government Assets' recommendation of broadening Hydro One's ownership with an initial public offering of approximately 15 per cent as well as a secondary offering of an additional 14 per cent of shares with plans to undertake subsequent share sales over time, totalling up to 60 per cent of voting securities in Hydro One.
- The government is moving forward with a merger of Hydro One Brampton through a sale to Alectra, a newly merged entity of three urban local distribution companies to contribute to and encourage consolidation in the distribution sector.
- Hydro One has gone forward with acquisitions in the local distribution sector:
 - On August 15, 2016, an agreement was reached for Hydro One to acquire Orillia Power Distribution Corporation from the City of Orillia, Ontario.
- Hydro One Limited announced on October 31, 2016, that its wholly-owned subsidiary Hydro One Inc. completed the purchase of Great Lakes Power Transmission LP, following approval of the transaction by the Ontario Energy Board on October 13, 2016.
- Government policy and implementation in moving forward with these plans could affect OEFC's current and projected revenue streams from the Province, Hydro One and MEUs, and affect OEFC's expenses.

- The Province's plan to broaden ownership of Hydro One affects OEFC revenues and expenses relating to
 - i) the electricity sector dedicated income from the Province, as
 - a) a decrease in Provincial ownership will reduce the Province's share of Hydro One net income, and
 - b) the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will reduce the Province's interest payments to OEFC related to its investment in Hydro One, and
 - ii) the financial benefit as per section 50.3 of the *Electricity Act, 1998* related to the sale of Hydro One shares.
 - iii) interest on debt, as the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will provide OEFC with cash inflows that help reduce borrowing requirements.
- Acquisitions by Hydro One would move the income related to those entities out of the PILs regime, reducing OEFC PILs. Such acquisitions may also increase Hydro One net income, which could increase ESDI to OEFC.
- Government policy that would affect electricity load, up or down, with an increase or decrease in DRC revenue, up to the legislated end date of April 1, 2018, from commercial, industrial and other electricity users, offset by any expense to support load management.

Resources

OEFC has no employees. Since April 1, 1999, pursuant to a directive from the Minister of Finance, the OFA has conducted borrowing and related debt and risk management activities, cash management, banking, accounting, financial reporting, forecasting and other related activities on a cost-recovery basis for the OEFC.

Many OFA staff perform OEFC-related functions; for efficiency reasons, these staff are integrated with OFA business units. The costs of twenty full-time equivalents (FTEs) and associated overhead are fully recovered from the OEFC. OFA positions are generally excluded from collective bargaining as the OFA performs borrowing and investing on behalf of the Province, including the OEFC.

In accordance with a Memorandum of Understanding (MOU) between the OEFC and the Ministry of Finance, an agreed number of FTEs has been allocated to the Ministry of Finance to provide revenue collection and reporting services. Costs of these positions are fully recoverable from the OEFC.

The OFA works closely with the Ministry of Finance's human resources branch to implement and maintain the government's human resource strategies, policies and practices.

Financial Statements and Budget

Proposed Operating Expenditures, Projected Revenues & Funding Requirements

The OEFC is an operational enterprise agency of the Province. It has a legislated requirement to issue audited financial statements for the fiscal year, which are approved by its Board of Directors and to submit these to the Minister of Finance within 90 days after the end of every fiscal year. The financial statements summarize the OEFC's revenues and expenditures and are tabled in the Legislature once approved by the Minister of Finance. The statements are also included in the Public Accounts of Ontario. The financial results of the OEFC are consolidated with those of the Province for Public Accounts and Budget purposes.

The business plan shows the operational costs of the OEFC. The following budget table provides the projected cost of functions performed by the OFA and the Ministry of Finance to be recovered from the OEFC. The OEFC does not undertake any capital expenditures.

	Actual	Interim	Budget		
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Salaries	2,182,877	2,226,534	2,271,065	2,316,486	2,362,816
Benefits	297,665	303,618	309,691	315,885	322,202
	2,480,542	2,530,152	2,580,756	2,632,371	2,685,018
Debt Management Costs	542,909	553,860	564,937	576,236	587,761
Direct Operating Expenses	660,072	673,274	686,739	700,474	714,484
Total OFA Cost Recoveries	\$3,683,523	\$3,757,286	\$3,832,432	\$3,909,081	\$3,987,263
MOF Chargeback for PILS and DRC Audit and Administration Costs	1,800,000	1,800,000	1,800,000	1,900,000	1,900,000
Total Cost Recoveries charged to OEFC	\$5,483,523	\$5,557,286	\$5,632,432	\$5,809,081	\$5,887,263

OFA cost recoveries including debt management costs are in accordance with the MOU between the OEFC and the OFA. Staffing and other out-of-pocket costs expended on the administration, audit and collection of the PILs and the DRC, are recovered by the Ministry of Finance on a quarterly basis in accordance with the respective MOU.

Initiatives Involving Third Parties

OEFC manages and administers electricity contracts with Non-Utility Generators. In its management of these contracts, OEFC may consult with the provincial government and the Independent Electricity System Operator (IESO), and retain external consultants.

OEFC provides the IESO support for its DRC offset payments made under the Industrial Electricity Incentive (IEI) demand management program.

There are no other third parties, other than the provincial government and its agencies, with which the OEFC is partnering or with which it has a funding relationship for the purpose of delivering OEFC programs. Moreover, the OEFC does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

Implementation Plan

For 2017–20, the OEFC intends to implement its business plan using existing resources.

Communications Plan

OEFC updates, including annual reports, bulletins, information for Ontario Hydro bondholders and electricity sector updates can be found on www.oefc.on.ca. Annual financial statements are also available in Volume 2 of the Public Accounts of Ontario. Financial and borrowing updates can be found in the Provincial Budget, the Economic Outlook and Fiscal Review, Ontario's Quarterly Finances and the OFA Bulletin.

The OFA also responds to inquiries from investors about bonds issued by the former Ontario Hydro, as well as inquiries from the public regarding the OEFC and its responsibilities.

Appendix A – Overview of 2016-17 Results

1. Manage Debt and Other Liabilities Cost-Effectively

Performance Measures	Targets	Results
For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The requirement for refinancings or new borrowings to take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One. The borrowing strategy for OEFC will be presented in the Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. (All results are validated by Internal Audit Division.)	There is no borrowing planned for OEFC in the 2016-17 fiscal year. As of January 16, 2017, there has been no borrowing for OEFC.
OEFC works with Hydro One to determine an effective strategy for transfers in cases where new permits are not being issued by the federal government due to backlogs. Meeting this objective is not completely within OEFC's control.	OEFC and Hydro One develop options for transfers where the federal government is not issuing new permits	Decision was made to specifically address in OEFC's agreements with First Nations, the possibility of new permits not being issued.

2. Manage Financial Risk within Approved Policy Limits

Performance Measures	Targets	Results
The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.	As at November 30, 2016: - foreign exchange exposure was 0.03 per cent of outstanding debt; - net interest rate resetting exposure was 4.2 per cent of outstanding debt; - there was no breach of the IOD loss limit or counterparty default; and - all credit exposures were within approved limits.
Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments, and risk management reporting are regularly reviewed and updated. Exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.	Revisions to the OEFC's Credit Risk Policy were approved by the OEFC Board of Directors on April 15, 2016. Revisions to the OEFC's Policy on the Use of Derivatives and Other Financial Instruments, and Risk Management Reporting Policy were approved by the OEFC Board of Directors on September 23, 2016. Revisions to the OEFC's Market Risk Policy were approved by the OEFC Board of Directors on December 16, 2016. NIRRE and FX exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures and results are reported to the BSC.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Performance Measures	Targets	Results
The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment, incremental power and other arrangements with the NUGs while protecting the interests of the ratepayers.	From April 1, 2016 to October 31, 2016, savings from curtailments totalled \$12.8 million. Worked with IESO in coordinating curtailments in response to surplus baseload generation.
Successful negotiation of any necessary revisions to the contracts. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy. Respond to requests, where provided for in the PPA, from NUGs for contract extensions. Accurate and timely provision of information and analysis required by external legal counsel to represent OEFC in NUG litigation.	Ongoing monitoring and assessment of electricity market conditions with a view to identifying implications for NUG contract management and outstanding litigation. Ongoing management of NUG contract issues by evaluating contract change requests including requests for financial support and for contract extensions with a view to minimizing ratepayer impact. Support for NUG litigation including development of any required analysis. In particular, staff provided support for a lawsuit related to a change by the Ministry of Energy in the allocation of the Global Adjustment. Based on support from IESO, to support its initiative, as directed by the Minister of Energy, OEFC entered into an agreement to curtail a natural gas-fired NUG for most of the month of December. IESO verified that the curtailment payment is on substantially the same basis as longer term curtailments being discussed, and it provided support for the OEFC curtailment as it would help facilitate ratepayer savings that will be generated under the longer term agreement being negotiated by IESO. OEFC has also terminated three and suspended two gas-fired NUG PPAs to allow for those NUGs to enter into curtailment agreements with the IESO that provide them an incentive to operate in a manner that is better aligned with the integrated power system's needs, reducing costs to

Performance Measures	Targets	Results
		ratepayers and lowering carbon emissions.
Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee meter service provider performance to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing market rules and standards.	Implement and maintain all required operational systems and infrastructure. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Negotiate amendments to existing PPAs and incremental power purchase transactions as required.	PPAs continued to be managed effectively with energy payments settled accurately and on a timely basis. Received a clean opinion by Ontario Internal Audit from its bi-annual audit of NUG contract administration. Replacement of meters with 2016 seal expiries and installations of new TCP/IP communication protocols have been completed as scheduled. Completed the metering asset transfers and IESO settlement deregistrations for West Windsor Power and TransAlta Windsor upon its PPA termination. Timely updates to the PPA rates and adjustment payments to the NUGs reflecting various index changes. In compliance with the court order for the GA lawsuit settlement, reviewed revisions to the TMC/DCR new escalation indices and calculated, as well as, verified all the 2011-2015 retro-rate adjustments and payments totalling about \$181 million. Continued to provide inputs and energy settlement calculations for contract negotiations and preparations of affidavits & facts for various legal proceedings as required.

Performance Measures	Targets	Results
Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.	Invoices were received and all payments were settled in a timely manner.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Performance Measures	Targets	Results
Review and analyze requests from successor companies to ease cash flow constraints.	If necessary, provide additional credit facilities to OPG for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required.	Monitored and provided analysis and advice on OPG's liquidity, borrowing program and credit rating. Monitored a \$700 million credit facility with OEFC to provide financing for OPG's equity contribution to the Lower Mattagami project. The facility expired June 30, 2016, with no draws. Provided analysis and advice on and monitored OPG's external financing activities (commercial paper, public market project financing). Monitored a credit facility to OPG of up to \$800 million for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project, up to December 31, 2016. A new credit facility of \$700 million with OPG was put in place for 2017, with the agreement being amended to increase the credit facility to \$1.5 billion up to December 31, 2017 and \$2.35 billion thereafter until December 31, 2018. Monitoring a \$90 million loan refinancing and a \$95 million credit facility extension to the IESO, both

Performance Measures	Targets	Results
		expiring April 30, 2017, to provide the IESO with flexibility to meet financing and liquidity requirements.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Performance Measure	Targets	Results
Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the debt retirement charge (DRC), payment in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and analyze publicly available information from Hydro One. Meet operational requirements on a timely basis to implement the government's policy initiatives.	Monitored and analyzed OPG and Hydro One financial results. Monitored and provided analysis and advice on the fiscal impacts of OPG business plan's projections, as well as OPG and Hydro One publicly available financial information and rate application submissions to / decisions of the Ontario Energy Board (OEB), including monitoring of regulatory proceedings. Provided periodic electricity sector outlook and fiscal updates with respect to OEFC to various divisions within the Ministry of Finance and Treasury Board Secretariat, including for the Budget, Public Accounts and Fall Economic Statement. Provided analysis, advice, and implementation support regarding the financial impacts on OEFC from broadening Hydro One ownership, including financial benefits under section 50.3 of the <i>Electricity Act, 1998</i> and the Province's commitment to dedicating proceeds related to the book value of shares sold to OEFC. Prepared submission packages for statutory appropriation expense item for Hydro One provincial corporate income tax payable to the OEFC, as provided for under section 91.2 of the <i>Electricity Act, 1998</i>
Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections to the Auditor General for review and audit committee and Board for approval.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Perform annual update of the long-term defeasance model.	Completed 2015-16 audited financial statements and annual report, and interim quarterly financial statements for 2016-17. Provided OEFC financial information for 2015-16 Public Accounts. Prepared 2017-18 OEFC PRRT (Program Review, Renewal, and Transformation) submission and updated forecast for the 2016 Fall Economic Statement. Reviewed and updated the long-term OEFC model, including analysis of electricity sector policy scenarios.

Performance Measure	Targets	Results
Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.	Implemented a Minister of Finance Directive to OEFC to provide a credit facility to OPG for 2017 for general corporate requirements, including the Darlington Refurbishment Project. Continued to implement past, active Directives.

Appendix B –Corporate Structure and Accountability

Governing Legislation

Pursuant to the *Electricity Act, 1998* (the Act), OEFC is the legal continuation of Ontario Hydro and is a corporation without share capital. Its legislative mandate is set out in the Act. The Act provides for the appointment by the Lieutenant Governor in Council of a Board of Directors to supervise the management of the OEFC. The Act provides that the CEO is appointed by the Lieutenant Governor in Council, on the recommendation of the Minister of Finance. The CEO is responsible for managing the day to day operations of the OEFC.

Agency Classification

The Act provides that the OEFC is an agent of the Crown. It is classified as a “Board Governed Agency” agency pursuant to Management Board’s Agencies and Appointments Directive.

Minister of Finance

The Minister of Finance is responsible to the Legislature for the fulfilment of the OEFC’s mandate and reporting on the affairs of the OEFC, including tabling of the annual report in the Legislature. The Minister approves the OEFC’s annual business plan, which may also be reviewed at any time at the request of the Minister or Management Board of Cabinet (MBC).

In accordance with MBC requirements, the Minister enters into or affirms a Memorandum of Understanding (MOU) with the OEFC which sets out the OEFC’s mandate and the roles and responsibilities of senior management, including the Chair, Board of Directors and CEO. The MOU also sets out financial and other reporting responsibilities of the OEFC to the Minister. The Minister recommends the approval of the MOU by MBC.

Deputy Minister and Chair

The Deputy Minister of Finance advises the Minister of major issues or developments involving OEFC. Generally, the Deputy Minister is also appointed as Chair of the OEFC. As Chair, he or she provides leadership and direction to the OEFC Board and is responsible for developing the MOU with the Minister and for submitting the annual business plan, including budget, to the Minister.

Corporate Governance

Board of Directors

The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. In accordance with the OEFC's MOU with the Minister of Finance, the OEFC Board performs a supervisory role. It oversees the management of the OEFC and helps to ensure that the OEFC's mandate, as determined by the Province, is implemented. The Board is currently comprised of current and former public servants.

The Board fulfills its responsibilities through regular meetings of its Audit Committee and meetings of the full Board, receipt of regular reports from management and approval of the OEFC's financial risk policies as well as its internal audit plan, annual business plan and annual report. The Board receives quarterly reports from management regarding OEFC's compliance with applicable laws, directives and policies. The Board may enact by-laws for the OEFC, which must be approved by the Minister of Finance. The Board meets at least once quarterly.

OEFC is required to provide its annual report to the Minister of Finance within 90 days of the fiscal year end, or, if extended by the Minister, by the day on which the Public Accounts of Ontario are released. The annual report is tabled in the Legislature. The OEFC financial statements are included in the Public Accounts of Ontario.

Audit Committee

The Audit Committee supports the Board of Directors. It reviews the OEFC's financial statements and recommends them to the Board of Directors. It also approves the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls. Another function of the Audit Committee is to receive regular reports regarding OEFC's compliance with legal and regulatory requirements and applicable government directives and policies.

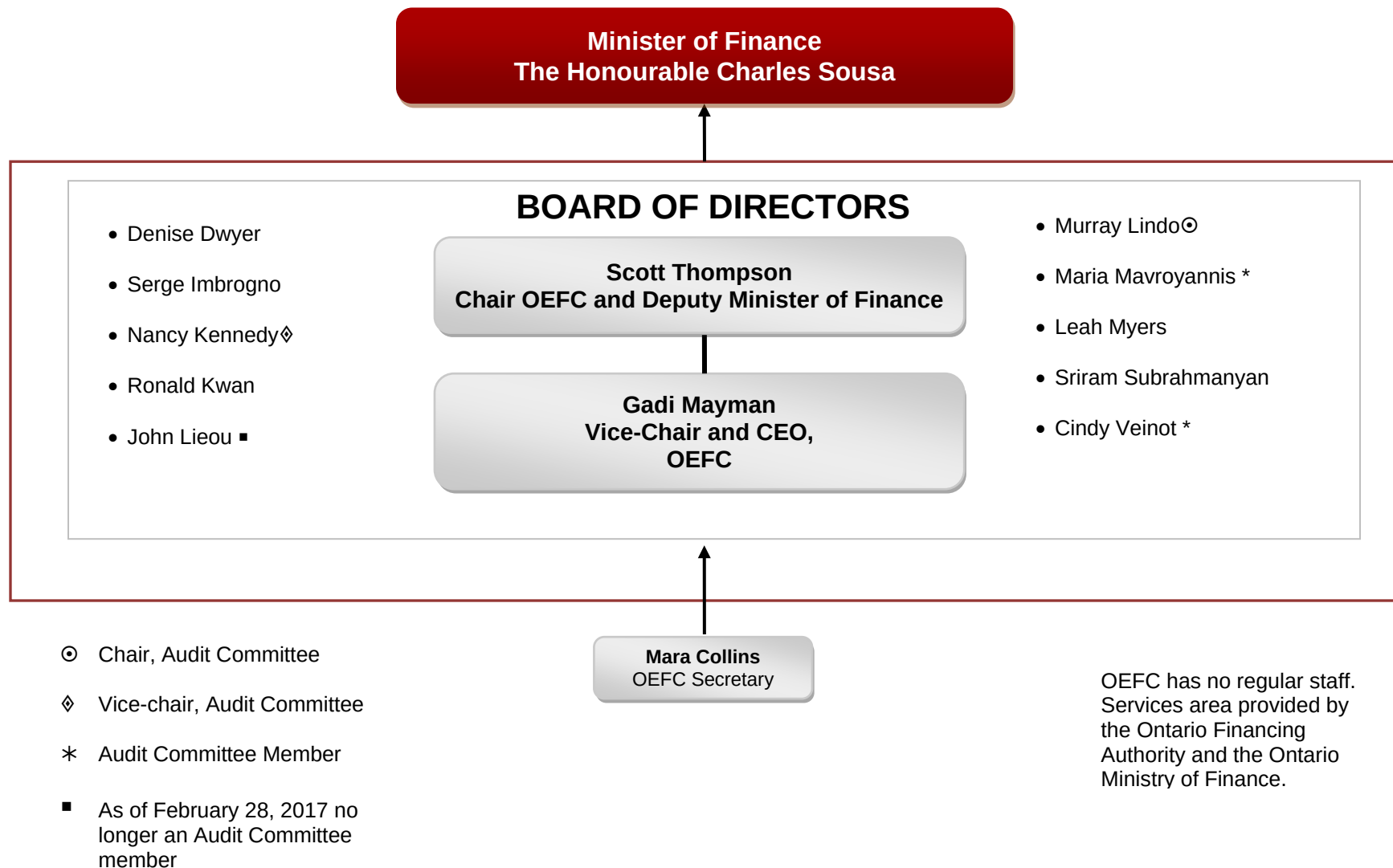
Chief Executive Officer (CEO)

The CEO is accountable to the Board for managing the day to day operations of the OEFC in accordance with its annual business plan, the OEFC's by-laws, Board-approved policies, and applicable ministerial and government directives. The CEO reports at each quarterly board meeting regarding the operations of the OEFC. The CEO also reports to the Chair concerning the OEFC.

Employees

The OEFC does not have any employees, although some OFA staff members are designated as officers of the OEFC for the purpose of executing agreements and other documents on its behalf. The OFA and staff in the Ministry of Finance carry out the OEFC's day to day operations under the supervision of the CEO and the OEFC Board.

Ontario Electricity Financial Corporation (OEFC) Organization Chart



From: [Gavin He](#)
To: [Christina Zhang](#)
Subject: RE: OEFC Business Plan
Date: Wednesday, March 01, 2017 3:46:18 PM
Attachments: [OEFC 2017-20 Business Plan Draft_2017 02 15_OFA CEFD_v4_Markup2.docx](#)
[CEO Memo to DM - OEFC 2017-20 BP.docx](#)
[DM Memo to M - OEFC 2017-20 BP.docx](#)

Hi Christina,

Please find attached the memos for the OEFC Business Plan submission. They have been reviewed by Legal.

Also, we made one more edit to the BP on page 4.

Thanks,
Gavin He

From: Gavin He
Sent: Tuesday, February 28, 2017 9:25 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: OEFC Business Plan

Hi Christina,

Please find attached the updated OEFC Business Plan for Gadi's review and approval.

CEFD has made some update to reflect the feedback from the OEFC board meeting and the attached version is approved by Ron.

Please note that this is due back to AAD **tomorrow, March 1st, 2017.**

Thanks,
Gavin He

From: Caroline Swerdlyk
Sent: Thursday, February 23, 2017 3:41 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mara Collins <Mara.Collins@ofina.on.ca>
Subject: OEFC Business Plan

Hi Gavin,

The OEFC Board approved the business plan today, subject to changes that Ron is aware of,

including adding to the Executive Summary OEFC achievements in paying-down debt, NUG curtailments and elimination of the DRC. (There was also a typo noted on p. 12 – the spelling of “decisions” needs to be corrected.)

We understand that you will work with Ron to finalize the Business Plan for submission to the Minister of Finance in accordance with the AAD deadline. If there are any further substantive changes made to the Business Plan that are approved by the CEO, please advise as they will need to be reported at the next Board meeting.

If you have any questions, please let me know.

Thanks,
Caroline
5-8141



2017-20 BUSINESS PLAN

Approved by the Board of Directors

Date

Approved by the Minister of Finance

Signature
The Honourable Charles Sousa
Minister of Finance

Date

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Executive Summary

The Ontario Electricity Financial Corporation (OEFEC, or the Corporation) is responsible for the management of the debt and certain other liabilities of the former Ontario Hydro. The OEFEC assumed approximately \$38.1 billion in debt and other liabilities of the former Ontario Hydro when it was restructured on April 1, 1999. A portion of the \$38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving \$20.9 billion of "stranded debt" not supported by those assets (and an initial unfunded liability of \$19.4 billion, when taking into account other OEFEC assets as at April 1, 1999).

As at March 31, 2016, total debt and liabilities amounted to \$25.1 billion, and OEFEC's unfunded liability was reduced to \$4.4 billion. And, based on the Province's 2016 Budget projections for OEFEC in 2016-17, the OEFEC projected excess of revenue over expense of about \$0.6 billion would further reduce the unfunded liability by that amount, which would mean 2016-17 would be the thirteenth consecutive year that the stranded debt has been reduced.

Overview of 2016-17 Results

The Ontario Electricity Financial Corporation (OEFEC) accomplished the following key objectives presented in its 2016-19 business plan.

1. Manage debt and other liabilities cost-effectively
 - Continued to manage OEFEC's debt and other liabilities, with debt outstanding of \$23.0 billion as at October 31, 2016.
 - The Corporation's projected results are for a continued reduction in the unfunded liability in 2016-17, by an estimated \$0.6 billion, even as OEFEC has had to manage with reduced revenues from the Debt Retirement Charge (DRC) as the 2016-17 is the first full year of the elimination of the DRC for residential customers.
2. Manage financial risk within approved policy limits
 - Maintained a zero foreign exchange exposure on outstanding debt principal and maintained net interest rate resetting exposure within policy limits.
3. Manage and administer the OEFEC power supply and demand management contracts
 - In 2016-17, to the end of October, achieved \$12.8 million in cost-savings through curtailments.
 - Continued to manage and implement a contract with the Independent Electricity System Operator (IESO) in support of its Industrial Electricity Incentive (IEI) demand management program.
 - Supporting an IESO initiative, under which the IESO was complying with a direction from the Minister of Energy, OEFEC terminated three and suspended two gas-fired non-utility generator (NUG) power purchase agreements (PPAs). This allowed those NUGs to enter into curtailment agreements with the IESO that provide an incentive to NUGs to operate in a manner that is better aligned with the integrated power system's needs, reducing OEFEC costs, costs to ratepayers, and lowering carbon emissions.
4. Provide financial assistance, as required, to the Ontario Hydro successor corporations

- Continued to monitor and implement financial assistance from OEFC to Ontario Power Generation (OPG), including a \$700 million credit facility up to December 31, 2017, for the purpose of financing general corporate purposes, including ~~the definition phase of~~ the Darlington refurbishment project. This credit facility is expected to be increased to \$1.5 billion up to December 31, 2017, with further availability thereafter until December 31, 2018.
 - Continued to monitor and provide analysis and advice on the credit facility between the IESO and the OEFC.
5. Support the implementation of the government's electricity industry policies and determine the impact on the OEFC
- Continuing to support the IEI program.
 - Projections for 2016-17 in Budget 2016 show an excess of revenue over expense of about \$0.6 billion, which would reduce the Corporation's unfunded liability (or stranded debt) to below \$4 billion. This would be the thirteenth consecutive annual decline in the unfunded liability.
 - Provided support for the implementation of the government's policy on broadening Hydro One ownership, including the dedication of proceeds related to the book value of shares sold towards paying down the Province's electricity sector debt and other payables with OEFC and financial benefits provided by the Province to OEFC as per section 50.3 of the *Electricity Act, 1998*.

Key Objectives for 2017-2020, consistent with its mandate letter from the Minister of Finance, include the following:

- Manage debt and other liabilities cost-effectively.
- Manage financial risk within approved policy limits.
- Manage and administer the non-utility generator (NUG) contracts and demand management contracts.
- Manage and administer a contract with IESO in support of its Industrial Electricity Incentive (IEI) demand management program.
- Provide financial assistance, as required, to the Ontario Hydro successor corporations.
- Support the implementation of the government's electricity industry policies and determine the impact on the OEFC.

Governing Legislation and Mandate

Under the *Electricity Act, 1998* (the "Act"), Ontario Hydro was restructured into five corporations (excluding subsidiaries): Ontario Power Generation Inc. (OPG), Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority (ESA) and the OEFC.

Pursuant to the Act, the OEFC's mandate includes the following:

- Managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro.
- Managing the former Ontario Hydro's NUG contracts.
- Receiving all payments and administering other assets, liabilities, rights and obligations of the former Ontario Hydro 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 and a distributor owned or controlled, directly or indirectly, by Her majesty the Queen in Right of Ontario and licensed by the Ontario Energy Board.
- Entering into financial and other agreements relating to electricity supply or management of electricity demand, in Ontario.
- Performing any additional objects as specified by the Lieutenant Governor in Council.

Strategic Directions and Performance Measures

1. Manage Debt and Other Liabilities Cost-Effectively

Objective	Performance Measure	Targets
Manage financing requirements in a sound and efficient manner. The OEFC manages the debt and liabilities of the former Ontario Hydro, with total debt of \$24.3 billion as at March 31, 2016. The 2017-18 Financing, Debt and Electricity Management Plan for the Province and the OEFC will detail strategies and operational objectives on how the OEFC will manage its debt portfolio. The plan will reflect considerations such as investor demand, market structure, interest rate outlooks, OEFC cash flows and debt maturity constraints.	For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. Performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The OEFC has existing long-term debt maturities totalling \$2.1 billion, \$0.7 billion, and \$1.4 billion in 2017-18, 2018-19 and 2019-20 respectively. The requirement for refinancings or new borrowings will take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One, as well as any loan requirements from OPG. The strategy for OEFC's borrowing requirement will be presented in the 2017-18 Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by Internal Audit Division.
Working with OPG and Hydro One to effectively manage claims against OEFC and Hydro One or OPG relating to the former Ontario Hydro's federal permits and related facilities on First Nation Reserves ("Permit Claims"). (Hydro One and OPG maintain most of these facilities; however, in some cases, legal title remains in OEFC as the continuation of Ontario Hydro.)	Permit Claims are defended or settled without liability to OEFC. OEFC is released from liability relating to Permit Claims.	OEFC is not required to make any payments under any judgement or settlement of a Permit Claim. All settlements of Permit Claims by Hydro One/OPG also include a release of OEFC.

2. Manage Financial Risk within Approved Policy Limits

Objective	Performance Measure	Targets
Manage the debt portfolio within exposure policy limits. Exposures are expected to remain within policy limits throughout 2016-19.	The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.
Setting risk management policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for Market Risk, Credit Risk, Use of Derivatives and Other Financial Instruments, and Risk Management Reporting are regularly reviewed and updated annually. Interest and FX rate exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Objective	Performance Measure	Targets
Minimize NUG costs to ratepayers by utilizing arrangements such as curtailment or incremental power transactions.	The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.
Negotiate any necessary revisions to the NUG contracts.	Successful negotiation of revisions to the contracts necessary to ensure that the contracts are consistent with the current electricity market environment and government policy. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy.
Provide effective administration of NUG power purchase agreements (PPAs).	Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee the performance of the meter service provider under contract to OEFC, to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing contract terms, electricity market rules and standards.	Maintain and improve operational systems, applications and infrastructure as required. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Provide operational and market settlement information and advice in support of legal proceedings, renegotiation of contracts and energy curtailments as required.

Objective	Performance Measure	Targets
Administer the OEFC's obligations to provide the IESO support for its DRC offset payments made under the IEI demand management program.	Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Objective	Performance Measure	Targets
Facilitate the cash flow requirements of the successor corporations.	Review and analyze requests from successor companies to ease cash flow constraints. Review and analyze requests from OPG to provide flexibility in debt term structure.	Provide and monitor credit facilities to OPG and IESO, as needed, for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required, including greater access to 30-year borrowing for OPG.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Objective	Performance Measure	Targets
Monitor the financial performance of the successor electricity corporations. Monitor, review and respond to developments and/or government policy initiatives in the electricity sector.	Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the DRC, payments in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and continue to monitor and analyze Hydro One's financial results. Meet operational requirements on a timely basis to implement the government's policy initiatives. Provide analysis and advice on the financial impacts on OEFC from broadening ownership of Hydro One.

Objective	Performance Measure	Targets
Timely and accurate financial reporting.	Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Continue to review the long-term OEFC model.
Implement Directives from the Minister of Finance.	Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.

Risk Identification, Assessment and Mitigation Strategies

Risk Category: STRATEGIC				
RISK AREA: Strategic/ Policy/ Performance Risk: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with OPS policies). The risk that strategies and policies fail to achieve required/ targeted results. The risk of not providing value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence / Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Electricity Policy Changes	Government policy changes that could result in additional responsibilities for the OEFC, or have a net impact on OEFC through changes in cash flows or dedicated revenues to OEFC.	Medium / Medium	Medium	Monitor, assess and respond to developments in support of the government's electricity plan. Corporate and Electricity Finance Division (CEFD) provides financial, fiscal impact and policy analysis and advice to the Deputy Minister and Minister of Finance on the electricity sector, including the fiscal impacts on the Province of proposed government policies. CEFD staff also provide on-going financial and fiscal impact analysis to other divisions in the Ministry of Finance and TBS, including OTB, OPCD, OB, OEP, TPD, and CQSD. CEFD and OFA staff support the OEFC by providing financial analysis and advice to the Deputy and Minister to inform government's policy making process, including advice on fiscal impacts from the impact on OEFC and pay down of the stranded debt and potential cost recovery from the rate base.
Strategic Planning (Annual Business Plan)	Strategies and policies fail to achieve required results.	Low/Medium	Medium	A three-year OEFC business plan is approved by the Minister of Finance and OEFC's Board of Directors. Quarterly progress reports are provided to the OEFC's Board and reporting on the achievement of strategic objectives for the previous fiscal year is included in the business plan.

				OEFC monitors the electricity sector environment and provides analysis and advice on policy options which could directly or indirectly have an impact on OEFC and relevant stakeholders. The Ministry of Finance will be consulted before any change is made to OEFC's strategic direction or programs that require ministry and/or TB/MBC approval. The Financing, Debt and Electricity Management Plan for OEFC is developed based on in-depth research and analysis and is adjusted throughout the year as conditions change. The Audit Committee (AC) of the Board works with Ontario Internal Audit Division to ensure that the annual OEFC audit plan allows for the auditors to assist with program design and provides for audits of any high risk aspects of programs.
Meeting Stakeholder Expectations	The risk that OEFC may fail to meet stakeholder expectations, including those of the Province and other public bodies.	Low/Medium	Medium	OEFC manages the former Ontario Hydro's debt and administers the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities, including the Non-Utility Generator contracts, and provides financial assistance to the successor corporations of Ontario Hydro. OEFC is available to meet with any OEFC electricity contract counterparty as required. OEFC senior management maintains regular and frequent contact with the Deputy Minister's Office, the Deputy Minister of Energy and the OEFC Board. This is complemented through quarterly board meetings chaired by the Deputy Minister of Finance and annual reporting to the Minister of Finance through the Business Plan and the Annual Report. OEFC's reporting to external stakeholders is through posting on its website the Business Plan and publishing the Annual Report, and its annual financial statements are included in the Public Accounts of the Province. The OEFC also maintains and updates a website accessible to external stakeholders.

Financial Market Risk	Higher-than-forecast interest rates resulting in higher annual financing charges.	Low/Medium	Low	Manage net interest rate resetting exposure. Diversify the borrowing program by managing its pace and the debt maturity profile. The broadening of ownership of Hydro One has resulted in a significant cash inflow to OEFC to date and as projected. As such OEFC is projected not to engage in borrowing to fund maturing debt in 2016-17 and most likely in the two out years.
Credit Risk	The risk that counterparty defaults on its obligations arising from financial and derivative transactions.	Low/Medium	Low	Reduce exposure to external counterparties with a credit rating of single-A, and lower by using standard credit mitigation techniques, including the possible execution of collateral agreements, re-couponing and terminations. Entities with high potential exposures relative to credit limits will be used sparingly when initiating new swaps. The OEFC's exposure to external counterparties is minimal and will no longer exist post 2016-17 when all derivate contracts with all external counterparties expire.
Dedicated Revenues of the Electricity Sector to OEFC	The amount of dedicated revenues to OEFC affect stranded debt pay down.	Medium/Medium	Medium	OFA/CEFD staff receive and review OPG business plans and monthly financial updates and Hydro One's publicly available financial information and provide projections and analysis, as well as potential options, to the government and OEFC. Monitor and assess the impacts of Hydro One rate applications and decisions, and public financial reporting information. Monitor MEU PILs cash flows and MEU financial statements. OFA jointly manages the nuclear funds. Diversify the nuclear funds investment portfolio globally using a variety of fund managers in different sectors.

Risk Category: ACCOUNTABILITY/GOVERNANCE

RISK AREA: Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, MOU or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Meeting statutory requirements	Risk of non-compliance with statutory requirements	Low/Medium	Low	MOF/OFA Legal Branches, as applicable, advise of statutory changes affecting OEFC operations and key directives are distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO. Non-compliance with applicable laws or regulations would also be reported to the Board quarterly (or sooner, depending on the severity). CEO/Board direct remedial action (which may include training). Ministry/MGS HR personnel would advise on any disciplinary action.
Reliability of financial systems	The risk that the OEFC's financial information and reporting system (through the OFA) is not reliable or fails to meet quality standards.	Low/Low	Low	The OEFC has well-established processes and procedures for monitoring and reporting on its financial performance to its Audit Committee, Board of Directors and to the Ministry. OEFC financials are prepared on a quarterly basis for discussion and approval by the OEFC Audit Committee and Board of Directors. Changes to accounting pronouncements are also addressed during the quarterly discussions. Annual budgets and audited financials are submitted to the ministry as per TBS requirements. Internal controls and financial systems are assessed by both the staff of the Office of the Auditor General and the Province's Internal Audit Division on an annual basis. So far no material issues have been identified.
First Nations Litigation	OEFC, as a legal successor to Ontario Hydro, is at risk of being named in First Nations lawsuits.	Low/Medium	Medium	OEFC is indemnified by OPG and/or Hydro One for any liability in relation to the matters raised in these lawsuits.

NUG litigation	OEFC, as a legal successor to Ontario Hydro, is party to lawsuits by non-utility generators (NUGs) relating to their power purchase agreements (PPAs) originally entered into with Ontario Hydro.	High/Low	Medium	OEFC administers these claims based on appropriate legal advice. The risk is reduced as PPAs expire/terminate. The impact on OEFC is mitigated by legislative amendments in 2005, under which OEFC fully recovers its NUG contract costs through the Global Adjustment. Any costs paid by OEFC are passed through to consumers through the Global Adjustment.

Risk Category: OPERATIONAL

RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Operational Risk	Risk of not effecting settlement of electricity transactions and payments to the NUGs, or other contract counterparties, conducted by the OEFC since January 1, 2005.	Low/Low	Low	Systems, procedures and controls have been in place and continuously improved since inception and staff are adequately trained, with no significant issues.

Risk Category: WORKFORCE				
RISK AREA: Workforce: Operational Workforce Risks				
Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Collective Agreements/ Worker Compensation/ Salary Settlement Costs	Retention of key skill sets and staff for the roles and competencies they provide to OEFC. Without a unique compensation plan, with base compensation established to ensure retention of key skill sets for Capital Markets and certain Risk Control staff, the OFA would be severely limited in its ability to retain existing staff and would face a near impossible task of attracting external qualified candidates.	Low/High	Medium	Work to achieve and/or maintain the ability, or utilise the available scope, to compensate staff fairly and in comparison to competitors to limit turnover, and in accordance with applicable legislation or compensation directives.

	Compensation for most other OFA positions supporting OEFC are tied to the OPS Management Compensation Plan, which may limit the OFA's ability to attract and retain staff with the required skill sets.			

Risk Category: INFORMATION TECHNOLOGY AND INFRASTRUCTURE

RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy
Privacy and security	Does the agency handle sensitive/confidential information on behalf of the government? How does the agency reduce the potential compromise of personal data through	Low/Medium	Low	Access to all electronic data requires some form of authentication. Security of electronic and hard copy information is provided by key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a yearly basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply.

	identity theft, or unauthorized electronic or physical access of information?			OFA Trading Restrictions and Disclosure Requirements Policy is provided to OFA staff, along with any additional direction as required (e.g., Hydro One transactions).
Business continuity	What are the processes in place to ensure that critical I&IT systems are available for operation to support business requirements (disaster recovery & business continuity planning)?	Low/Low	Low	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's disaster recovery (DR) site. Critical production systems are routinely run out of the DR site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes remote equipment, remote access services and mobile telephones. Internal Audit Division is conducting an audit of the OFA BCP.

Risk Category: OTHER

RISK AREA: Other Risk: Risk that does not fit in any of the above categories. Corporate Social Responsibility concerns – Environment, Climate Change, Energy Management, Health Promotion, Waste Reduction, Fair Trade practices. Organizational Assets – Facilities and Equipment, Personal Safety, Physical Security. Issues relating to third parties that are involved with the agency such as service or goods providers.

Risk Element or Classification	Identification of Risk/ Risk Description	Likelihood of Occurrence/ Impact if Risk Realized (High, Medium, Low)	Overall Risk Assessment (High, Medium, Low)	Mitigation Strategy

Additional risks	How does the agency ensure that consideration of financial risk is an ongoing exercise within the agency; i.e., the potential costs of relationships with third party service providers or suppliers?	Low/Low	Low	As part of procuring service providers and supplies, the OFA's procurement policy requires identification of the cost of the contract over the term, including renewals and consideration of other options.

Environmental Scan: Assessment of Issues Facing the OEFC

Factors that could affect OEFC meeting financial projections or core corporate objectives are described below.

External Factors

- The financial performances of OPG and Hydro One affect OEFC revenues relating to
 - i) the electricity sector dedicated income from the Province, which is the Province's combined net income from OPG and Hydro One in excess of the Province's interest costs of its investment in its electricity subsidiaries, and
 - ii) OPG payments in lieu of taxes (PILs) to the OEFC, and payments to OEFC in respect of Hydro One Inc. provincial corporate income taxes.
- The financial performance of municipal electricity utilities (MEUs) also affects OEFC revenues through MEU PILs to the OEFC.
- The Ontario Energy Board's (OEB) decisions on regulated rates, including the allowed return on equity, may affect projected OPG and Hydro One's financial performance and MEU PILs.
- Additional financial assistance to OPG may be required in the future, including debt maturity refinancing and new loans.
- The Province's progress in broadening Hydro One ownership will affect the OEFC's dedicated income from the Province related to Hydro One. The dedication of certain proceeds from Hydro One share offerings may affect OEFC's cash flows, refinancing requirements and debt interest costs.

Economic conditions and electricity demand:

- Economic conditions, industrial activity, and higher/lower electricity demand have an impact on the OEFC through net incomes of OPG, Brampton Distribution Holdco Inc. and Hydro One, Hydro One provincial CIT, OPG and MEU PILs, and Debt Retirement Charge (DRC) revenue. An economic downturn/recovery would tend to decrease/increase electricity demand.
- Electricity demand lower than projections in regulatory filings could result in lower revenues for OPG, Hydro One and MEUs in the absence of recovery through variance accounts. In addition, lower demand could trigger curtailments for hydroelectric and nuclear production, potentially resulting in a negative financial impact to OPG if these costs are non-recoverable in rates.
- Lower electricity consumption also results in lower DRC revenues.
- Economic conditions may affect pension costs for OPG and Hydro One. Any pension costs not recovered through electricity rates or deviating from forecasts without recovery through variance accounts would lead to reductions in earnings of OPG and Hydro One.

Financial markets:

- Soft inflation and slowing growth led the Bank of Canada to cut the target overnight rate by 50 basis points in 2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.
- In the United States, the Federal Reserve raised rates for the first time since 2006 at its December 2015 meeting, and again on December 14, 2016, citing a solid labour market and expectations for inflation to rise, in the medium-term, towards its 2 per cent target as reasons for the hike. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, the European Central Bank in January 2017 announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time."
- According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018..
- The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Changes to the government policy environment can affect OEFC revenues and expenses:

- Changes in corporate tax rates would affect OEFC's current and projected future payments-in-lieu of tax revenues to OEFC from OPG and MEUs and current and projected future payments of Hydro One provincial corporate income tax allocated by the Province.
- The government has acted on the Premier's Advisory Council on Government Assets' recommendation of broadening Hydro One's ownership with an initial public offering of approximately 15 per cent as well as a secondary offering of an additional 14 per cent of shares with plans to undertake subsequent share sales over time, totalling up to 60 per cent of voting securities in Hydro One.
- The government is moving forward with a merger of Hydro One Brampton through a sale to Alectra, a newly merged entity of three urban local distribution companies to contribute to and encourage consolidation in the distribution sector.
- Hydro One has gone forward with acquisitions in the local distribution sector:
 - On August 15, 2016, an agreement was reached for Hydro One to acquire Orillia Power Distribution Corporation from the City of Orillia, Ontario.
- Hydro One Limited announced on October 31, 2016, that its wholly-owned subsidiary Hydro One Inc. completed the purchase of Great Lakes Power Transmission LP, following approval of the transaction by the Ontario Energy Board on October 13, 2016.
- Government policy and implementation in moving forward with these plans could affect OEFC's current and projected revenue streams from the Province, Hydro One and MEUs, and affect OEFC's expenses.

- The Province's plan to broaden ownership of Hydro One affects OEFC revenues and expenses relating to
 - i) the electricity sector dedicated income from the Province, as
 - a) a decrease in Provincial ownership will reduce the Province's share of Hydro One net income, and
 - b) the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will reduce the Province's interest payments to OEFC related to its investment in Hydro One, and
 - ii) the financial benefit as per section 50.3 of the *Electricity Act, 1998* related to the sale of Hydro One shares.
 - iii) interest on debt, as the Province's commitment to using proceeds related to the book value of the shares sold to pay down payables to OEFC will provide OEFC with cash inflows that help reduce borrowing requirements.
- Acquisitions by Hydro One would move the income related to those entities out of the PILs regime, reducing OEFC PILs. Such acquisitions may also increase Hydro One net income, which could increase ESDI to OEFC.
- Government policy that would affect electricity load, up or down, with an increase or decrease in DRC revenue, up to the legislated end date of April 1, 2018, from commercial, industrial and other electricity users, offset by any expense to support load management.

Resources

OEFC has no employees. Since April 1, 1999, pursuant to a directive from the Minister of Finance, the OFA has conducted borrowing and related debt and risk management activities, cash management, banking, accounting, financial reporting, forecasting and other related activities on a cost-recovery basis for the OEFC.

Many OFA staff perform OEFC-related functions; for efficiency reasons, these staff are integrated with OFA business units. The costs of twenty full-time equivalents (FTEs) and associated overhead are fully recovered from the OEFC. OFA positions are generally excluded from collective bargaining as the OFA performs borrowing and investing on behalf of the Province, including the OEFC.

In accordance with a Memorandum of Understanding (MOU) between the OEFC and the Ministry of Finance, an agreed number of FTEs has been allocated to the Ministry of Finance to provide revenue collection and reporting services. Costs of these positions are fully recoverable from the OEFC.

The OFA works closely with the Ministry of Finance's human resources branch to implement and maintain the government's human resource strategies, policies and practices.

Financial Statements and Budget

Proposed Operating Expenditures, Projected Revenues & Funding Requirements

The OEFC is an operational enterprise agency of the Province. It has a legislated requirement to issue audited financial statements for the fiscal year, which are approved by its Board of Directors and to submit these to the Minister of Finance within 90 days after the end of every fiscal year. The financial statements summarize the OEFC's revenues and expenditures and are tabled in the Legislature once approved by the Minister of Finance. The statements are also included in the Public Accounts of Ontario. The financial results of the OEFC are consolidated with those of the Province for Public Accounts and Budget purposes.

The business plan shows the operational costs of the OEFC. The following budget table provides the projected cost of functions performed by the OFA and the Ministry of Finance to be recovered from the OEFC. The OEFC does not undertake any capital expenditures.

	Actual	Interim	Budget		
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Salaries	2,182,877	2,226,534	2,271,065	2,316,486	2,362,816
Benefits	297,665	303,618	309,691	315,885	322,202
	2,480,542	2,530,152	2,580,756	2,632,371	2,685,018
Debt Management Costs	542,909	553,860	564,937	576,236	587,761
Direct Operating Expenses	660,072	673,274	686,739	700,474	714,484
Total OFA Cost Recoveries	\$3,683,523	\$3,757,286	\$3,832,432	\$3,909,081	\$3,987,263
MOF Chargeback for PILS and DRC Audit and Administration Costs	1,800,000	1,800,000	1,800,000	1,900,000	1,900,000
Total Cost Recoveries charged to OEFC	\$5,483,523	\$5,557,286	\$5,632,432	\$5,809,081	\$5,887,263

OFA cost recoveries including debt management costs are in accordance with the MOU between the OEFC and the OFA. Staffing and other out-of-pocket costs expended on the administration, audit and collection of the PILs and the DRC, are recovered by the Ministry of Finance on a quarterly basis in accordance with the respective MOU.

Initiatives Involving Third Parties

OEFC manages and administers electricity contracts with Non-Utility Generators. In its management of these contracts, OEFC may consult with the provincial government and the Independent Electricity System Operator (IESO), and retain external consultants.

OEFC provides the IESO support for its DRC offset payments made under the Industrial Electricity Incentive (IEI) demand management program.

There are no other third parties, other than the provincial government and its agencies, with which the OEFC is partnering or with which it has a funding relationship for the purpose of delivering OEFC programs. Moreover, the OEFC does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

Implementation Plan

For 2017–20, the OEFC intends to implement its business plan using existing resources.

Communications Plan

OEFC updates, including annual reports, bulletins, information for Ontario Hydro bondholders and electricity sector updates can be found on www.oefc.on.ca. Annual financial statements are also available in Volume 2 of the Public Accounts of Ontario. Financial and borrowing updates can be found in the Provincial Budget, the Economic Outlook and Fiscal Review, Ontario's Quarterly Finances and the OFA Bulletin.

The OFA also responds to inquiries from investors about bonds issued by the former Ontario Hydro, as well as inquiries from the public regarding the OEFC and its responsibilities.

Appendix A – Overview of 2016-17 Results

1. Manage Debt and Other Liabilities Cost-Effectively

Performance Measures	Targets	Results
For performance measurement purposes only, borrowing for the Province and the OEFC is treated as a single program. However, the performance of issues undertaken on behalf of the OEFC is reported separately. The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	The requirement for refinancings or new borrowings to take into account expected cash flows to OEFC, including from the broadening of ownership of Hydro One. The borrowing strategy for OEFC will be presented in the Financing, Debt, and Electricity Management Plan. Achieve a percentile ranking (relative to the statistical distribution of observed benchmark rates) of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. (All results are validated by Internal Audit Division.)	There is no borrowing planned for OEFC in the 2016-17 fiscal year. As of January 16, 2017, there has been no borrowing for OEFC.
OEFC works with Hydro One to determine an effective strategy for transfers in cases where new permits are not being issued by the federal government due to backlogs. Meeting this objective is not completely within OEFC's control.	OEFC and Hydro One develop options for transfers where the federal government is not issuing new permits	Decision was made to specifically address in OEFC's agreements with First Nations, the possibility of new permits not being issued.

2. Manage Financial Risk within Approved Policy Limits

Performance Measures	Targets	Results
The OEFC identifies and quantifies exposures to market and credit risk in the financing, debt and electricity management plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Liquid reserves are targeted at zero. Performance of money market investments is not measured.	Maintain unhedged exposure to foreign currencies below five per cent of outstanding debt. Maintain net interest rate resetting exposure below 35 per cent of outstanding debt. Maintain credit exposures within policy limits which are based on credit ratings and capitalization as set out in Table 2 of the OEFC Credit Risk Policy.	As at November 30, 2016: - foreign exchange exposure was 0.03 per cent of outstanding debt; - net interest rate resetting exposure was 4.2 per cent of outstanding debt; - there was no breach of the IOD loss limit or counterparty default; and - all credit exposures were within approved limits.
Risk management policies conform to industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported on in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments, and risk management reporting are regularly reviewed and updated. Exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures.	Revisions to the OEFC's Credit Risk Policy were approved by the OEFC Board of Directors on April 15, 2016. Revisions to the OEFC's Policy on the Use of Derivatives and Other Financial Instruments, and Risk Management Reporting Policy were approved by the OEFC Board of Directors on September 23, 2016. Revisions to the OEFC's Market Risk Policy were approved by the OEFC Board of Directors on December 16, 2016. NIRRE and FX exposures are calculated and reported on a daily basis. Monthly stress testing is performed on the OEFC's credit exposures and results are reported to the BSC.

3. Manage and Administer the OEFC Power Supply Contracts and IESO Agreement in support of its IEI Program

Performance Measures	Targets	Results
The performance of the power portfolio received under the NUG contracts is evaluated on the basis of specific targets designed to minimize costs without negatively impacting the cost to ratepayers.	Produce cost savings through curtailment, incremental power and other arrangements with the NUGs while protecting the interests of the ratepayers.	From April 1, 2016 to October 31, 2016, savings from curtailments totalled \$12.8 million. Worked with IESO in coordinating curtailments in response to surplus baseload generation.
Successful negotiation of any necessary revisions to the contracts. External legal counsel receives necessary support to effectively represent OEFC in ongoing NUG litigation.	NUG contract price revisions may be negotiated provided that the following conditions have been met: - independent advice to determine economic viability of the facility; - advice from IESO on continued system requirement or system need for any NUG seeking a price revision; and - support of the Ministry of Energy. Respond to requests, where provided for in the PPA, from NUGs for contract extensions. Accurate and timely provision of information and analysis required by external legal counsel to represent OEFC in NUG litigation.	Ongoing monitoring and assessment of electricity market conditions with a view to identifying implications for NUG contract management and outstanding litigation. Ongoing management of NUG contract issues by evaluating contract change requests including requests for financial support and for contract extensions with a view to minimizing ratepayer impact. Support for NUG litigation including development of any required analysis. In particular, staff provided support for a lawsuit related to a change by the Ministry of Energy in the allocation of the Global Adjustment. Based on support from IESO, to support its initiative, as directed by the Minister of Energy, OEFC entered into an agreement to curtail a natural gas-fired NUG for most of the month of December. IESO verified that the curtailment payment is on substantially the same basis as longer term curtailments being discussed, and it provided support for the OEFC curtailment as it would help facilitate ratepayer savings that will be generated under the longer term agreement being negotiated by IESO. OEFC has also terminated three and suspended two gas-fired NUG PPAs to allow for those NUGs to enter into curtailment agreements with the IESO that provide them an incentive to operate in a manner that is better aligned with the integrated power system's needs, reducing costs to

Performance Measures	Targets	Results
		ratepayers and lowering carbon emissions.
Implement and maintain necessary system applications, internal controls and operating procedures to calculate and settle energy payments, accurately and on a timely basis, according to the PPAs. Accurate and timely reports for analytical and management reporting purposes. Oversee meter service provider performance to ensure that meter installations, upgrades and maintenance are performed cost effectively and comply with the existing market rules and standards.	Implement and maintain all required operational systems and infrastructure. Calculate, settle and report energy payments to the NUGs and other relevant parties, accurately and on a timely basis, according to contract terms. Monitor and work with the meter service provider to ensure that maintenance, upgrade and reseal of meter installations are cost-effective and in line with the IESO's market rules and timelines. Negotiate amendments to existing PPAs and incremental power purchase transactions as required.	PPAs continued to be managed effectively with energy payments settled accurately and on a timely basis. Received a clean opinion by Ontario Internal Audit from its bi-annual audit of NUG contract administration. Replacement of meters with 2016 seal expiries and installations of new TCP/IP communication protocols have been completed as scheduled. Completed the metering asset transfers and IESO settlement deregistrations for West Windsor Power and TransAlta Windsor upon its PPA termination. Timely updates to the PPA rates and adjustment payments to the NUGs reflecting various index changes. In compliance with the court order for the GA lawsuit settlement, reviewed revisions to the TMC/DCR new escalation indices and calculated, as well as, verified all the 2011-2015 retro-rate adjustments and payments totalling about \$181 million. Continued to provide inputs and energy settlement calculations for contract negotiations and preparations of affidavits & facts for various legal proceedings as required.

Performance Measures	Targets	Results
Timely settlement of any payments due to the IESO under the terms of the legal agreement respecting the IEI.	Settle invoices from the IESO for IEI DRC offset payments within the agreed time period. Maintain accurate records of all payments for disclosure in year-end financial statements. Retain qualified third party to audit IESO records on an annual basis to ensure the accuracy of invoice calculations.	Invoices were received and all payments were settled in a timely manner.

4. Provide Financial Assistance as Required to the Ontario Hydro Successor Corporations

Performance Measures	Targets	Results
Review and analyze requests from successor companies to ease cash flow constraints.	If necessary, provide additional credit facilities to OPG for general corporate purposes, refinancing maturities, specific projects and/or provide other financial assistance as directed or required.	Monitored and provided analysis and advice on OPG's liquidity, borrowing program and credit rating. Monitored a \$700 million credit facility with OEFC to provide financing for OPG's equity contribution to the Lower Mattagami project. The facility expired June 30, 2016, with no draws. Provided analysis and advice on and monitored OPG's external financing activities (commercial paper, public market project financing). Monitored a credit facility to OPG of up to \$800 million for the purpose of financing general corporate purposes, including the definition phase of the Darlington refurbishment project, up to December 31, 2016. A new credit facility of \$700 million with OPG was put in place for 2017, with the agreement being amended to increase the credit facility to \$1.5 billion up to December 31, 2017 and \$2.35 billion thereafter until December 31, 2018. Monitoring a \$90 million loan refinancing and a \$95 million credit facility extension to the IESO, both

Performance Measures	Targets	Results
		expiring April 30, 2017, to provide the IESO with flexibility to meet financing and liquidity requirements.

5. Support the Implementation of the Government's Electricity Industry Policies and Determine the Impact on the OEFC

Performance Measure	Targets	Results
Monitor and act upon any impact on operating results, borrowing program strategy, stranded debt, the debt retirement charge (DRC), payment in lieu of taxes and electricity sector dedicated income.	Receive and analyze monthly updates (and additional information, as required) from OPG and analyze publicly available information from Hydro One. Meet operational requirements on a timely basis to implement the government's policy initiatives.	Monitored and analyzed OPG and Hydro One financial results. Monitored and provided analysis and advice on the fiscal impacts of OPG business plan's projections, as well as OPG and Hydro One publicly available financial information and rate application submissions to / decisions of the Ontario Energy Board (OEB), including monitoring of regulatory proceedings. Provided periodic electricity sector outlook and fiscal updates with respect to OEFC to various divisions within the Ministry of Finance and Treasury Board Secretariat, including for the Budget, Public Accounts and Fall Economic Statement. Provided analysis, advice, and implementation support regarding the financial impacts on OEFC from broadening Hydro One ownership, including financial benefits under section 50.3 of the <i>Electricity Act, 1998</i> and the Province's commitment to dedicating proceeds related to the book value of shares sold to OEFC. Prepared submission packages for statutory appropriation expense item for Hydro One provincial corporate income tax payable to the OEFC, as provided for under section 91.2 of the <i>Electricity Act, 1998</i>
Timely and accurate provision of quarterly and annual financial statements and projections of revenues and expenses; and annual long-term cash flow projections to the Auditor General for review and audit committee and Board for approval.	Provide quarterly and annual financial statements and projections of revenues and expenses to the audit committee and Board for approval. Perform annual update of the long-term defeasance model.	Completed 2015-16 audited financial statements and annual report, and interim quarterly financial statements for 2016-17. Provided OEFC financial information for 2015-16 Public Accounts. Prepared 2017-18 OEFC PRRT (Program Review, Renewal, and Transformation) submission and updated forecast for the 2016 Fall Economic Statement. Reviewed and updated the long-term OEFC model, including analysis of electricity sector policy scenarios.

Performance Measure	Targets	Results
Timely and responsive implementation of Directives as required.	Timely and responsive implementation of Directives as required.	Implemented a Minister of Finance Directive to OEFC to provide a credit facility to OPG for 2017 for general corporate requirements, including the Darlington Refurbishment Project. Continued to implement past, active Directives.

Appendix B –Corporate Structure and Accountability

Governing Legislation

Pursuant to the *Electricity Act, 1998* (the Act), OEFC is the legal continuation of Ontario Hydro and is a corporation without share capital. Its legislative mandate is set out in the Act. The Act provides for the appointment by the Lieutenant Governor in Council of a Board of Directors to supervise the management of the OEFC. The Act provides that the CEO is appointed by the Lieutenant Governor in Council, on the recommendation of the Minister of Finance. The CEO is responsible for managing the day to day operations of the OEFC.

Agency Classification

The Act provides that the OEFC is an agent of the Crown. It is classified as a “Board Governed Agency” agency pursuant to Management Board’s Agencies and Appointments Directive.

Minister of Finance

The Minister of Finance is responsible to the Legislature for the fulfilment of the OEFC’s mandate and reporting on the affairs of the OEFC, including tabling of the annual report in the Legislature. The Minister approves the OEFC’s annual business plan, which may also be reviewed at any time at the request of the Minister or Management Board of Cabinet (MBC).

In accordance with MBC requirements, the Minister enters into or affirms a Memorandum of Understanding (MOU) with the OEFC which sets out the OEFC’s mandate and the roles and responsibilities of senior management, including the Chair, Board of Directors and CEO. The MOU also sets out financial and other reporting responsibilities of the OEFC to the Minister. The Minister recommends the approval of the MOU by MBC.

Deputy Minister and Chair

The Deputy Minister of Finance advises the Minister of major issues or developments involving OEFC. Generally, the Deputy Minister is also appointed as Chair of the OEFC. As Chair, he or she provides leadership and direction to the OEFC Board and is responsible for developing the MOU with the Minister and for submitting the annual business plan, including budget, to the Minister.

Corporate Governance

Board of Directors

The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. In accordance with the OEFC's MOU with the Minister of Finance, the OEFC Board performs a supervisory role. It oversees the management of the OEFC and helps to ensure that the OEFC's mandate, as determined by the Province, is implemented. The Board is currently comprised of current and former public servants.

The Board fulfills its responsibilities through regular meetings of its Audit Committee and meetings of the full Board, receipt of regular reports from management and approval of the OEFC's financial risk policies as well as its internal audit plan, annual business plan and annual report. The Board receives quarterly reports from management regarding OEFC's compliance with applicable laws, directives and policies. The Board may enact by-laws for the OEFC, which must be approved by the Minister of Finance. The Board meets at least once quarterly.

OEFC is required to provide its annual report to the Minister of Finance within 90 days of the fiscal year end, or, if extended by the Minister, by the day on which the Public Accounts of Ontario are released. The annual report is tabled in the Legislature. The OEFC financial statements are included in the Public Accounts of Ontario.

Audit Committee

The Audit Committee supports the Board of Directors. It reviews the OEFC's financial statements and recommends them to the Board of Directors. It also approves the annual internal audit plan and reviews the findings of the internal auditors regarding the adequacy of internal controls. Another function of the Audit Committee is to receive regular reports regarding OEFC's compliance with legal and regulatory requirements and applicable government directives and policies.

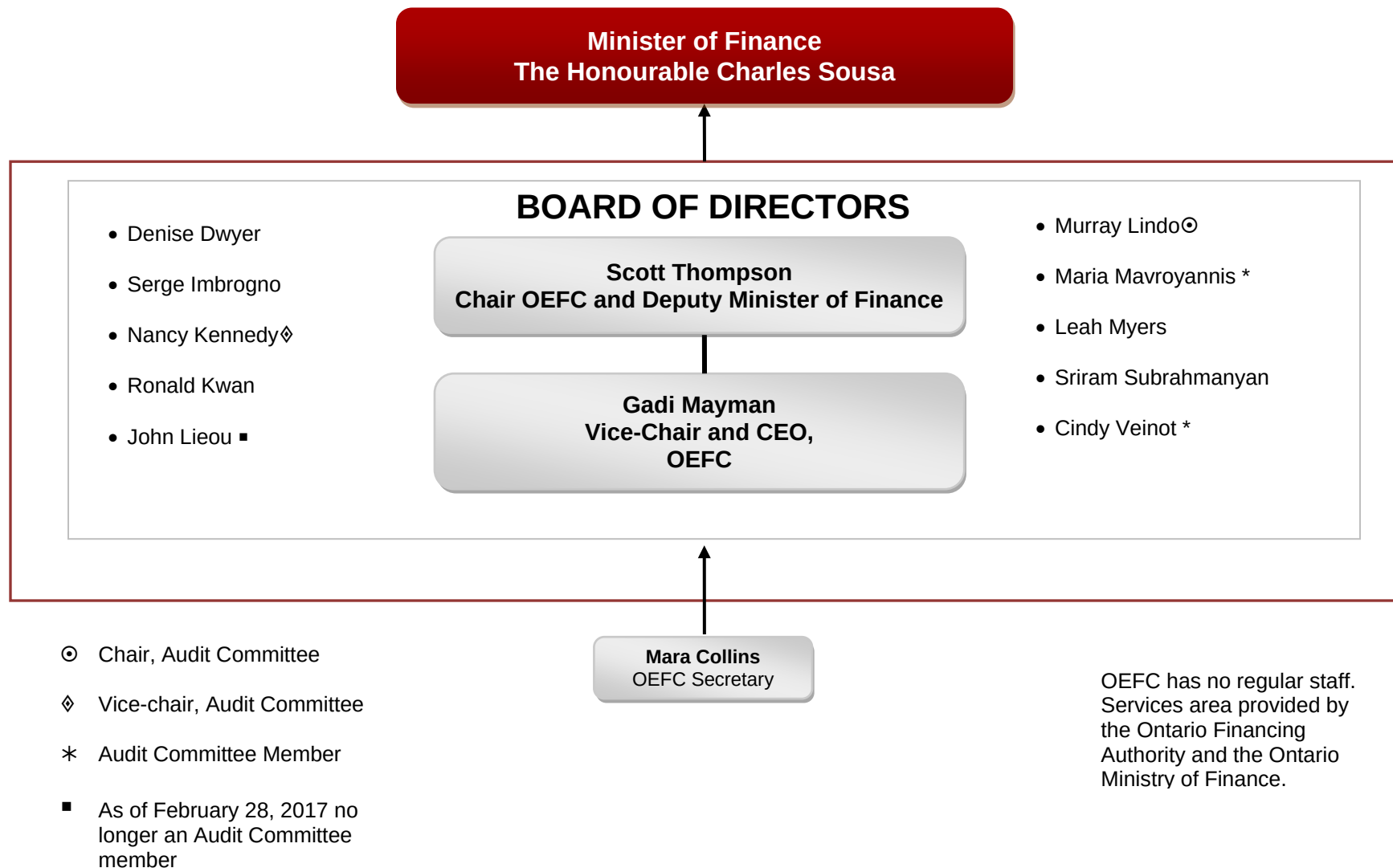
Chief Executive Officer (CEO)

The CEO is accountable to the Board for managing the day to day operations of the OEFC in accordance with its annual business plan, the OEFC's by-laws, Board-approved policies, and applicable ministerial and government directives. The CEO reports at each quarterly board meeting regarding the operations of the OEFC. The CEO also reports to the Chair concerning the OEFC.

Employees

The OEFC does not have any employees, although some OFA staff members are designated as officers of the OEFC for the purpose of executing agreements and other documents on its behalf. The OFA and staff in the Ministry of Finance carry out the OEFC's day to day operations under the supervision of the CEO and the OEFC Board.

Ontario Electricity Financial Corporation (OEFC) Organization Chart



**Ontario Electricity
Financial Corporation**
1 Dundas Street West
Suite 1400
Toronto ON M7A 1Y7
1Y7

**Société financière de l'industrie
de l'électricité de l'Ontario**
1 rue Dundas ouest
Bureau 1400
Toronto ON M7A



Phone: (416) 325-8000

March 1, 2017

MEMORANDUM TO: Scott Thompson
Deputy Minister of Finance

FROM: Gadi Mayman
Chief Executive Officer, OEFC

SUBJECT: **Ontario Electricity Financial Corporation 2017-20
Business Plan**

Please find attached the Ontario Electricity Financial Corporation's (OEFC) 2017-20 Business Plan for submission to the Minister for his approval.

The *Agencies and Appointments Directive* requires provincial agencies to develop a Business Plan annually for a minimum three-year period. The Business Plan must be approved by the OEFC's Board of Directors and the Minister of Finance. The plan is considered valid only after the Minister has approved it and the approval has been documented in writing.

Treasury Board/Management Board of Cabinet (TB/MBC) may request that the Minister submit the Business Plan for review by TB/MBC at any time.

When the Minister approves the OEFC's Business Plan, the plan becomes a document that the Minister and Ministry of Finance may use to hold the OEFC accountable.

The OEFC Board of Directors approved the Business Plan on February 23, 2017. Ministry of Finance staff also reviewed the Plan as required under MBC guidelines to ensure the plan meets the *Agencies and Appointments Directive* and the *Guide to Developing Agency Business Plans*.

Also attached is a transmittal letter for your signature to be forwarded with the 2017-20 Business Plan to the Minister for his approval.

Gadi Mayman

Attachments

Ministry of Finance
Office of the Deputy Minister

Frost Building South
7 Queen's Park Cr
Toronto, ON M7A 1Y7
Tel (416) 325-1590
Fax (416) 325-1595

Ministère des Finances
Bureau du sous-ministre

Édifice Frost sud
7 Queen's Park Cr
Toronto, ON M7A 1Y7
Tél (416) 325-1590
Télé (416) 325-1595



MEMORANDUM TO: The Honourable Charles Sousa
Minister of Finance

FROM: Scott Thompson
Deputy Minister of Finance

SUBJECT: **2017-20 Ontario Electricity Financial Corporation
Business Plan**

Please find attached for your review and approval, a copy of the Ontario Electricity Financial Corporation (OEFC) 2017-20 Business Plan.

The *Agencies and Appointments Directive (AAD)* requires the OEFC to annually prepare a business plan covering the next three fiscal years and submit the plan to the Minister of Finance for approval.

Treasury Board/Management Board of Cabinet (TB/MBC) may request that you submit the Business Plan for review by TB/MBC at any time.

The OEFC Board of Directors approved the Business Plan on February 23, 2017. Ministry of Finance staff also review the Plan as required under MBC guidelines to ensure that plan meets the *Agencies and Appointments Directive* and the *Guide to Developing Agency Business Plans*.

I recommend that you approve the OEFC 2017-20 Business Plan. If you agree, please sign the front cover of the Business Plan.

Sincerely,

Scott Thompson

Attachment

c: Gadi Mayman
Ronald Kwan

From: [Christina Zhang](#)
To: [Siva Nathan](#)
Subject: RE: OFA Business Plan
Date: Monday, March 13, 2017 2:58:01 PM
Attachments: [2017-20 OFA Business Plan.pdf](#)

Hi Siva,

Thank you for checking.

It's fine to send the OFA Business Plan but please note to the Internal Auditors that it is currently with the Minister's Office for approval. The attached has been approved by the OFA Board of Directors but is considered draft until pending the Minister's approval.

Regards,
Christina

From: Siva Nathan
Sent: Monday, March 13, 2017 2:36 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Siva Nathan <Siva.Nathan@ofina.on.ca>
Subject: OFA Business Plan

Hi Christina,

OFA Internal Auditors are currently auditing Cost Recovery Audit for OEFC and OILC. In the past we provided OFA Business plan for their audit work. This year also, they are asking the OFA Business Plan. I usually inform Lynsey and forward a copy of the approved Business Plan.

Please let me know whether you are okay by sending the Business Plan.

Thanks
Siva



2017–20 Business Plan

Approved by the Board of Directors

February 10, 2017

Date

Approved by the Minister of Finance

Signature

Date

The Honourable Charles Sousa
Minister of Finance

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EXECUTIVE SUMMARY

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). The initiatives in the OFA's 2017–20 Business Plan will focus on achieving the objectives set out in CIPA and the objectives set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016 over a three year planning horizon, as well as reporting on results of the previous year's Business Plan. Initiatives for the 2017–20 Plan include:

1. Executing the Province's borrowing program through development and implementation of the annual Financing, Debt & Electricity Management Plan. The Plan will provide critical details on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
2. Managing the Province's debt, investments, Ontario Nuclear Funds Agreement (ONFA) and financial risk, and contributing to the development of the Province's fiscal plan and outlook by working to generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds for various public bodies. This also involves managing ONFA-related investments, working together with Ontario Power Generation Inc. (OPG), to ensure interest rate, foreign exchange and credit exposures are within approved policy limits, as well as contributing to the Province's annual Budget, Fall Statement and quarterly finances.
3. Managing key financial relationships by building and maintaining connections with investors in both existing and new markets, as well as relationships with banks, financial service providers and investment dealers. This includes providing Investor Relations information products and updates on the OFA website. Maintaining close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives, and complete regulatory filings with the U.S. Securities & Exchange Commission (SEC) and any other applicable securities regulators.
4. Providing cash management and banking services on a centralized basis to all ministries and settlement, payment, financial and reporting, loan administration, information technology and client services to the Treasury Program by implementing effective treasury solutions for the Province and client agencies. Ensuring that the Province has sufficient cash available at all times to meet its financial obligations, and continuing to work with the other ministries to advise on banking and cash management components of government initiatives as well as on changes to accounting standards and their impact on the Province's debt and interest on debt.
5. Advising on and implementing corporate and electricity finance projects and policies by providing analysis and advice on cost-effective borrowing, investing and risk management by public bodies and other financing proposals, and on business cases for business supports. This includes providing advice on transactions that may affect the indebtedness or contingent liabilities of Ontario, including provincial guarantees. In addition, undertaking policy and financial analysis, modelling support and implementation, as required, for electricity financings, policies and initiatives, including ONFA, which could have fiscal, financial and/or economic implications for the Province and/or Ontario Electricity Financial Corporation (OEFC).
6. Ensuring the successful activation of OFA's decentralized Business Continuity Plan (BCP) by reviewing and updating the Corporate BCP Framework and Business Unit plans, as well as conducting corporate-wide BCP test exercises.

OVERVIEW OF 2016–17 RESULTS (TO DATE)

The Ontario Financing Authority (OFA) accomplished the following in support of the overall strategic directions outlined in the 2016–19 Business Plan¹:

1. *Execute the Province's borrowing program*

- As of January 31, 2017, the OFA had completed \$20.3 billion (85 per cent) of its \$23.8 billion (as per the 2016 Fall Economic Statement) long-term borrowing requirement for 2016–17. Approximately 82 per cent of long-term borrowing was completed in the Canadian dollar market.
- The 2016–17 Ontario Savings Bond (OSB) campaign raised \$127 million.
- The objectives set out in the 2016–17 Financing, Debt & Electricity Management Plan, approved by the OFA Board, are on track and expected to be successfully completed by fiscal year end.
- Sufficient liquidity has been available over the fiscal year to ensure the Province has been able to meet all of its financial commitments and payment obligations, largely reflecting the long-term borrowing program being consistently ahead of pace.
- Successfully executed five carve-out deals² to-date for the 2016–17 fiscal year (as of January 31, 2017). Held in-depth discussions with individual carve-out investors.
- On January 26, 2017, the Province successfully priced an \$800 million re-opening of its January 2023 Global Green Bond. The six year bond will help fund twelve green infrastructure projects, with an emphasis on clean transportation and energy efficiency and conservation. The transaction represents the third and largest ever Green Bond offering from the Province of Ontario.
- Provided expertise in accounting for Green Bonds, and set up financial accounting and reporting for these investment vehicles that met the requirements outlined by the investor community. Developed and released a second Green Bond newsletter on December 12, 2016, updating investors on the second Green Bond's use of proceeds, project selection process, as well as, providing project updates on the eight projects selected.
- Analyzed the scope and impact of the Markets in Financial Instruments Directive (MiFID) II and the Bank Recovery and Resolution Directive (BRRD) on the Province and implemented required documentation changes to ensure the Province's continued, uninterrupted access to European capital markets.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

- As of January 24, 2017, through the timing of debt issues and related hedging, the cost of regular borrowing for the Province based on the traditional methodology translated to a percentile ranking of 58th percentile against a statistical distribution of benchmark interest rates. As such the percentile ranking for regular borrowings is outside the designated target band of 45 to 55 percentile. The OFA has introduced a more accurate and comprehensive performance measurement methodology based on the tenor of individual debt issues. Applying this methodology, the cost of regular borrowing for the Province for the same date translated to a percentile ranking of 53rd percentile, falling within the target band of 45 to 55 percentile. The cost of strategic foreign borrowing as of January 24, 2017 translated into a percentile ranking of 54th percentile falling within the designated target band for strategic foreign borrowings of 50 to 75 percentile. The new methodology is yet to be extended to cover strategic foreign borrowings. There were no borrowings on behalf of OEFC.

¹ The OFA's fiscal year end is March 31, 2017, but quantitative performance results are as of December 31, 2016, unless otherwise noted.

² In order to accommodate large bond purchases by a single buyer, a large order procedure was implemented on October 14, 2011. The "carve-out" procedure allows for a portion of a bond issue to be sold to a single buyer.

- The money market performance was \$ \$21.6 million or thirteen basis points (bps) better than the benchmark as of December 31, 2016. The performance is eleven bps better than the upper limit of the target band which is plus or minus two bps of the benchmark.
 - The interest-on-debt (IOD) expense for 2016–17 is currently forecast at \$11,375 million, \$381 million lower than forecast in the *2016 Budget*, primarily as a result of lower than forecast interest rates.
 - Funds were managed on a discretionary basis on behalf of the Pension Benefits Guarantee Fund, Deposit Insurance Corporation of Ontario, Ontario Trillium Foundation, Infrastructure Ontario, and a commitment fund for the Ontario Capital Growth Corporation.
 - Funds were managed on a non-discretionary basis on behalf of the Ontario Immigrant Investor Corporation and Northern Ontario Heritage Fund.
 - With OPG, the Used Fuel and Decommissioning Segregated Funds' investments were managed under ONFA. The Funds have grown from \$16.9 billion at January 1, 2015 to about \$19.2 billion at September 30, 2016. As of November 30, 2016, the rate of return for the Used Fuel Fund for one year was 6.88 per cent compared to the market benchmark of 6.89 per cent and a target rate of return of 5.04 per cent. The rate of return for the Decommissioning Fund for one year was 6.79 per cent compared to the market benchmark of 7.07 per cent and a target rate of return of 5.15 per cent.
 - Contributed to the Province's annual Budget and quarterly finances, including the electricity sector outlook and assets; advised on the potential implications of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions.
 - As part of the Pooled Asset Management Working Group, provided technical investment management expertise on the modelling, design and implementation of a pooled asset management entity for institutions in Ontario's broader public sector. In February 2015, a final report was presented to the Minister of Finance. The OFA has continued to assist the Ministry of Finance (MOF) in implementing the Investment Management Corporation of Ontario (IMCO).
 - Administered borrowing authority obtained under the *Financial Administration Act* (FAA) which is required to carry out the Province's borrowing program. Effected changes to the FAA to better align the foreign currency conversion of debt maturities to be refinanced with the methodology used in calculating the Province's annual borrowing requirement.
3. *Manage key financial relationships*
- Held road shows, investor meetings and conference calls to meet with investors in Canada, the United States, Europe and Asia, and hosted meetings at the OFA offices. Held 139 investor meetings and events as of December 31, 2016, including meetings with 10 new accounts. Provided keynote speakers and panelists at industry conferences in Toronto and New York City. Promoted Toronto as a global financial centre.
 - Continued development of the OFA website to improve functionality, add additional information for investors and provide full mobile accessibility. As part of Ontario's *Open Data Directive*, the OFA published an Open Data Inventory List on its website, which includes all of the datasets the OFA creates, collects and/or manages. The website continues to be an important tool for communicating with investors and the public, receiving 34,792 visitors during the 2016 calendar year. Three CEO's Corner updates were posted over this time. The OFA email alert list had 363 subscribers as of December 31, 2016.
 - Maintained close relationships and held ongoing discussions with credit rating agencies and the banks which underwrite and distribute the Province's bonds in Canada and around the world to keep them apprised of government priorities and initiatives, the *2016 Budget*, the 2015–2016 Public Accounts, the *2016 Ontario Economic Outlook and Fiscal Review* (Fall Statement), the secondary offering of Hydro One upon its public announcement and other quarterly finance releases.
 - Managed increasingly more rigorous regulatory and disclosure requirements, and maintained close relationships with the regulatory bodies in the global capital markets.
 - Monitored credit exposures to banks with which the OFA has relationships. Executed 10 collateralized swap agreements with bank counterparties and are working toward executing additional agreements in order to mitigate credit risk with bank counterparties.

- Conducted comprehensive reviews of potential rule changes affecting the Province domestically and internationally such as the Market Abuse Directive (MAR) in the European Economic Area (EEA) and fee-based changes with Canada's primary central securities depository (CDS), consulting securities regulators and other capital market participants, as appropriate.
 - Monitored and fully complied with international withholding tax requirements in respect of its financial agreements under FATCA and OECD Common Reporting Standard for Entity Tax Residency.
4. *Provide cash management and banking services as well as settlement, payment services, loan administration and financial and reporting services and client services*
- Provided centralized banking services to the Province by strategically managing banking relationships, as well as providing efficient centralized cash management services to the Province, minimizing interest on debt.
 - Continued to provide cash management services to five client agencies and crown corporations, including the Pension Benefits Guarantee Fund, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario.
 - Managed the complex cash flows and settlement requirements associated with the secondary offering of Hydro One ensuring that these very large and time sensitive transactions were completed on a timely and accurate basis.
 - Continued to advise ministries on the application of the Cash Management Directive with regard to Government priorities including the proposed cap and trade mechanism for Ontario.
 - Continued strategic participation and advice to the cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Coordination Office to assist ministries in maintaining compliance with mandatory security requirements for debit/credit card acceptance.
 - After concluding a successful pilot, continued to work with the Ministry of Community and Social Services to replace social benefits payments made by cheque with a reloadable prepaid card product for all unbanked individuals providing both cost efficiencies, and improved services to Ontarians.
 - Provided analysis and advice to Ministry of the Environment and Climate Change (MOECC) on the structuring of the Province's proposed Cap and Trade auction program, which will be linked with those of California and Quebec, to ensure its sound financial management and protection of the Province's interests.
 - Provided advice to MOECC regarding the selection and management of a Financial Services Administrator to support the auction process, and control structure for the auction-related financial services and receipt of public money aspects.
 - Provided advice to the Ministry of Government and Consumer Services (MGCS) on their procurement of corporate purchasing / travel cards as well as analysis of related *Financial Administration Act* considerations.
 - Provided analysis and advice to ministries on payment options for new programs and program changes e.g. Ministry of Transportation Drive Clean program collections via Pre-Authorized Debit, Ministry of Advanced Education and Skills Development online collection of childcare license fees, and online Program Approval and Registration Information System.
 - Based on an in-depth risk and efficiency analysis the Province determined to no longer accept American Express cards as a payment mechanism. The decision generated savings through the elimination of a parallel infrastructure as well as reduced risk by streamlining PCI data security requirements.
 - Working closely with MOF to develop an e-services strategy for tax collection.
 - Continue to engage with provincial and federal counterparts on treasury and cash management program issues throughout the year.
 - Continued to provide timely and efficient settlement and payment services in managing the Provincial and OEFC debt portfolios and Non-Utility Generator (NUG) power purchase contracts.
 - Continued to work with MOF, MGCS and Treasury Board Secretariat (TBS) in advancing the OFA initiative to move pension plan assets that are currently part of the Consolidated Revenue Fund into

more appropriate asset management structures that have the potential to release up to \$50 million in annualized savings.

- The Integrity Commissioner has graduated the OFA from having to submit the travel expenses of the Board, the CEO and his direct reports and the top five employees in a fiscal year, for review by his office. The graduation is a testament to the timeliness and accuracy exhibited by the OFA in providing this information to the Office of the Commissioner over the past few years.
 - As next steps in providing feedback to the Public Sector Accounting Board (PSAB) with regards to its new standard on Financial Instruments, the OFA has retained Deloitte Inc. to consult with other provinces and provide feedback to PSAB on provincial concerns with the proposed standard.
 - Continued to provide accurate agency financial statements, as well as reported provincial debt, derivatives and investments in accordance with strict legislated timelines. As in past years, the OFA's 2015–16 Financial Statements received an unqualified opinion from the Office of the Auditor General. The Auditor General's annual review of the OFA's financial reporting of the Province's debt and interest on debt presented in the 2015–16 Public Accounts continued to be free of material issues.
 - Renewed and administered long and short term credit facilities between the Province and Ontario Infrastructure and Land Corporation ("OILC").
5. *Advise on and implement corporate and electricity finance projects and policies*
- Advised on capital projects and financing options for ministries and public sector entities.
 - Continued the review of business cases for OFA borrowing requests from public bodies including a number of Ontario colleges, school boards and corporations, expected to result in a total of \$400 million in new long-term loans. Loan program annual savings are estimated to be at least \$30 million per year for a total of approximately \$230 million in cumulative savings to date.
 - Continued to provide advice on municipal debt issuance and investment activities, including the expansion of the Prudent Investor standard to other large municipalities and on the Ministry of Municipal Affairs and Housing new municipal revenue tools strategy.
 - Monitored terms and conditions of loans and loan guarantees and reviewed proposals and provided advice to the Deputy Minister and the Minister on proposed options to amend the loan guarantees and associated loan and contracts.
 - Provided analysis and advice on the Province's investment in the Ontario Venture Capital Fund, the Northleaf Venture Catalyst Fund, Ontario Emerging Technologies Fund and the ScaleUp Ventures Fund. The CEO serves on the Board of Directors, and is a Vice-Chair of, the Ontario Capital Growth Corporation (OCGC), which manages the Province's interests in these four funds.
 - Advised on and reviewed proposed contingent liabilities and indemnity agreements put forward by ministries and public bodies that would increase the indebtedness of the Province, including contingent liabilities and indemnities for major infrastructure projects, accommodation leases or broader public sector borrowing.
 - Provided analysis and advice to the MOECC on the design of the Province's cap and trade auction program as well as the procurement of a financial services provider to the WCI Inc. to provide administrative support to that program.
 - Provided analysis and advice to the MOECC on the establishment of a new climate change agency tasked with the implementation of the ministry's carbon reduction programs.
 - Providing analysis and advice on the application of Section 28 of the *Financial Administration Act* to contracts entered into by public entities that would increase the indebtedness or contingent liabilities of the Province.
 - Led the development of a new protocol for the sharing of powers and responsibilities under Section 28 of the *Financial Administration Act* between the Minister of Finance and the President of Treasury Board.
 - Provided advice to the Ministry of Research, Innovation and Science (MRIS) on private sector refinancing of the MRIS-MaRS Phase 2 loan.

- Provided advice to ministries, Crown agencies and other public entities on loan structuring and credit enhancement strategies.
- Provided advice to the MOF's Office of Economic Policy regarding the Bank of Canada's proposal to extend an Emergency Lending Facility to all provincial credit unions.
- Provided analysis and advice in support of the Ministry of Energy moving forward with secondary offerings of Hydro One shares including, in 2016-17, the secondary offering executed in April 2016.
- Provided advice alongside MOF to help facilitate discussion and progress regarding the agreement-in-principle with First Nations – in support of broadening the ownership of Hydro One by the Province.
- Through a working group, working with Infrastructure Ontario and other areas of government, provided analysis and advice in support of unlocking the value of the Province's real estate assets, including the sale of the LCBO's head office lands in June 2016, and the sales process for OPG headquarters properties.
- Provided policy analysis and advice on the implementation of the Trillium Trust, and proposed framework for making disbursements from the Trillium Trust to receiving ministries in support of public infrastructure investments.
- Provided financial analysis and advice on continuous management and implementation of the commercial agreement with Borealis/Teranet for the electronic land registry system.
- CEO served on the Assistant Deputy Ministers' review committee of the Jobs and Prosperity Fund.
- Provided analysis, advice, and the fiscal impact of the electricity sector and asset optimization initiatives for the Province's annual Budget, Fall Statement, Public Accounts and quarterly finances.
- Supported electricity policies and initiatives, focusing on potential fiscal, financial, and economic impacts on the Province and OEFC, including analysis and advice to support implementation and expansion of the Industrial Electricity Incentive (IEI); expanding the Industrial Conservation Initiative (ICI); ongoing implementation of the Northern Industrial Electricity Rate (NIER) program and its review process, the rebate for residential, small business and farm electricity bills of an amount equal to the eight per cent provincial portion of the Harmonized Sales Tax (HST) or the Ontario Rebate for Electricity Consumers (OREC); and providing analysis and advice on the stranded debt of the electricity sector.
- Provided analysis and advice on proposed new loans facilities and continued to implement new and existing loan agreements between OEFC and OPG related to supply projects and refinancing debt maturities.
- Renewed and continued to implement a credit facility between OFA and the Independent Electricity System Operator (IESO) for liquidity purposes and also provided analysis and advice to ensure financial oversight / governance of these credit facilities following the merger of the OPA and IESO.
- Continued to implement the Aboriginal Loan Guarantee Program (ALGP) to facilitate Aboriginal equity participation in renewable energy and transmission projects. As of December 31, 2016, eight guarantees totalling almost \$240 million have been approved under the ALGP. All applications are reviewed in conjunction with one or more third party due diligence providers.
- Continued to implement the ONFA, including monitoring the segregated fund values, monitoring, reviewing and providing analysis and advice on the Province's approval of OPG's ONFA Reference Plan submission in 2016 and related submissions, reviewing for approval OPG's ONFA Annual Budget submissions and disbursement eligibility and requests, and monitoring the provincial guarantee provided under ONFA to the Canadian Nuclear Safety Commission (CNSC) as part of OPG's financial guarantee requirement to the CNSC.
- Provided analysis and advice on electricity supply initiatives, including nuclear refurbishments.
- Provided continuous support on discussions related to developing infrastructure and projects in the Ring of Fire.
- Provided analysis and advice on policies to support the consolidation of Ontario's electricity Local Distribution Company sector.

6. *Ensure the successful execution of the OFA's decentralized Business Continuity Plan (BCP)*
 - Reviewed and updated the Corporate BCP Framework.
 - Business Units conducted monthly tests, ensuring their respective plans are reviewed and updated.
 - Carried out two corporate-wide BCP test exercises, and implemented improvements to the Plan based on the results of these tests.
 - Reviewed corporate BCP Command and Support Team membership.

2017–20 OBJECTIVES

Key objectives for 2017–20 include the following, as set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016:

1. Execute the Province's borrowing program
2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook
3. Manage key financial relationships
4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services
5. Advise on and implement corporate and electricity finance projects and policies

In addition to the foregoing, the OFA has also identified the following additional key objective:

6. Ensure the successful execution of OFA's decentralized Business Continuity Plan

Total Revenues and Expenditures

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017-18	2018-19	2019-20
Total Revenue	30,071	30,117	30,804	30,856	31,290
Total Expenditure	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

Further detail can be found in the Financial Budget contained in this plan.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval. Note that as part of the 2016–17 PRRT process, Treasury Board disallowed the OFA request for a two per cent inflationary increase in its budgeted allocations for the out years.

MANDATE AND GOVERNING LEGISLATION

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). CIPA sets out the objectives of the OFA. The OFA:

- conducts borrowing and investment for the Province of Ontario and manages the Provincial debt;
- provides cash management and other financial services for the Province;
- advises ministries, Crown agencies, and other public bodies on financial matters; and
- assists Crown agencies and other public bodies to borrow and invest money through external sources or through the OFA.

The OFA also provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario or OILC).

The FAA also sets out certain financial powers which OFA employees exercise on behalf of the Minister of Finance to carry out the Province's borrowing, manage the Province's debt and invest its liquid reserves.

OVERVIEW OF CURRENT AND FUTURE PROGRAM AND ACTIVITIES AND IMPLEMENTATION PLAN: 2017–20

Activities will focus on supporting the following strategic directions:

1. *Execute the Province's borrowing program*

Overview

The OFA endeavours to ensure that borrowing by the Province and OEFC is cost-effective. Total long-term public borrowing is forecast at \$23.3 billion in 2017–18 and \$28.7 billion in 2018–19. This year's objectives may be challenging to implement due to the state of the global economy/market and the resource constraints within which the OFA is operating. Furthermore, borrowing blackouts can limit the amount of time in which the OFA can access the market. This may require borrowing in excess of \$3 billion per month when these blackouts are not in effect in order to complete the annual borrowing requirement. Other challenges include:

- continued high amount of borrowing required for the Province, including the amount that will have to be undertaken outside Canada;
- competition in the markets from other large domestic and international borrowers;
- evolving regulatory requirements such as Basel III, Dodd-Frank and EMIR that continue to make hedging of foreign debt more expensive and a challenge to execute in the size required by the Province;
- potential challenges for Ontario's credit rating. A downgrade may result in borrowing costs increasing; and
- management of downgrading or failure of counterparties, and continued implementation of collateralized swaps to mitigate credit risk.

Implementation Plan

- Develop the annual Financing, Debt & Electricity Management Plans for OFA Board approval and transmission to the Minister. These plans provide detail on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
- Meet the Province's funding requirements, anticipated to average about \$25 billion annually for the business plan period, in a cost-effective and prudent manner.
- Manage the Ontario Savings Bond campaign.
- Continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

Overview

The OFA manages the debt and liquid reserve portfolios, as well as centralized/segregated investment funds, for various public bodies, and jointly manages the Ontario Nuclear Funds with OPG. Financial risks associated with capital market activities are mitigated by adhering to prudent risk management policies which minimize financial risk by ensuring exposures and losses remain within approved limits. Risk management policies and program exposure limits are approved by the OFA Board of Directors. The OFA also contributes interest on debt, borrowing and debt management objectives, and electricity sector fiscal impact projections to the Budget, Fall Statement and other quarterly financial updates.

Implementation Plan

- Generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds, for various public bodies. Manage ONFA-related investments, working together with OPG.
- Ensure interest rate, foreign exchange and credit exposures are within approved policy limits.
- Contribute to the Province's annual Budget, Fall Statement and quarterly finances, including the electricity sector outlook; advise on the potential impact of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions. Continue playing an important role in the development of the Province's annual Budget and quarterly statements through the provision of timely and accurate financial information, and preparation of the Borrowing and Debt Management section of the Budget and Fall Statement.
- Continue with the implementation of the new methodology based on assessing individual debt issues by tenor, to measure the performance of the borrowing program.
- Continue to implement applicable changes as per financial and regulatory reform requirements including evolving effects from Basel III, EMIR and Dodd-Frank. These regulations are expected to continue to make the OFA's hedging process more complex. Hedging may also continue to become more expensive if proposals such as financial transaction taxes or mark-to-market derivatives taxes are legislated and implemented in Europe or the United States.

3. Manage key financial relationships

Overview

The OFA ensures investors and the financial community in Canada and abroad receive financial updates on a timely basis to make informed decisions about Province of Ontario debt securities. Investor Relations activities support borrowing program objectives by maintaining and broadening the Province's investor base. The OFA also ensures credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these factors in their reports and rating decisions.

The OFA manages the government's relationships with financial institutions, primarily the major Canadian and global banks, their investment dealer subsidiaries, and custodial and fiscal agents. This involves the acquisition and oversight of cost-effective products and services for the Province and certain Crown corporations.

Implementation Plan

- Support the Province's borrowing program by building and maintaining relationships with investors in existing and new markets. Provide Investor Relations information products, including updates to the OFA website, on a timely basis.
- Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives.
- Manage Ontario's relationships with banks, financial service providers and investment dealers.
- Complete regulatory filings with the U.S. Securities & Exchange Commission (SEC), United Kingdom Listing Authority (UKLA), Luxembourg Stock Exchange (LuxSE), Australian Securities Exchange (ASX) and any other applicable securities regulator. Conduct due diligence conference calls, as required, with the dealers and underwriters of the Province's debt securities offerings and their legal counsel.
- Implement and maintain collateralized swap agreements with bank counterparties to limit potential financial losses as a result of a credit event.

- Manage changes in financial and regulatory reform, liaising with regulators and legal counsel, as required.
- 4. *Provide services related to cash management, banking, settlement, payment and financial and reporting*

Overview

The OFA provides centralized banking and cash management services to the Province. The effective provision of these services allows for the efficient delivery of provincial services and contributes towards minimizing interest on debt expenditures. The OFA is responsible for settlements, payments and accounting/reporting functions associated with the Province's and OEFC's debt management programs, as well as agency financial reporting.

Implementation Plan

- Identify and implement effective treasury solutions for the Province and client agencies.
- Ensure that the Province has sufficient cash available at all times to meet its financial obligations.
- While compliance with PCI Data Security Standards is now in its sustainment phase, the OFA will continue to work with the other OPS stakeholders and the credit/debit card acquirer to ensure that the mandatory external reviews continue to report that that Province is in compliance with all applicable PCI standards.
- Continue to work with American Express and TD Merchant Services, the Province's card acquirer, to explore options for the continued acceptance of American Express cards via the acquirer's existing systems for Visa and MasterCard. The new arrangement would enable Amex cards to be used to obtain Provincial goods and services in a way that mitigates risk and increases efficiency for the Province.
- After the completion of a successful pilot, continue to work with the Ministry of Community and Social Services on the rollout of a reloadable payment card for unbanked benefit recipients under the Ontario Disability Support Program.
- Continue to advise ministries and agencies on the banking and cash management components of government initiatives including modernization and suitable banking options, as well as associated legal and regulatory aspects.
- Continue to collaborate with industry associations and provincial and federal jurisdictions on modernization initiatives and issues unique to the public sector.
- Continue the delivery of timely and accurate settlement/payment services for the Province and OEFC, including OEFC power supply contract settlements.
- Continue to work on the replacement of the Public Bodies Financing System with a new, internally developed/externally sourced system capable of handling all loans issued by the OFA and the Province. Progress is expected to proceed according to schedule and it is anticipated that the new system will be operational in 2017–18.
- Continue to work with the Ontario Pension Board, MOF Income Security and Pension Policy Division and TBS on the first phase of regularizing the management of various pension plans whose assets reside in the Consolidated Revenue Fund. The first phase is aimed at transferring the regulated portion of the assets of the Judges' Pension Plan to the IMCO generating annualized savings estimated to be \$15 million.
- Work with the Office of the Provincial Controller and OPG to develop options to address the potential under PSAB for Public Accounts consolidation adjustment impacts from OPG and Hydro One results under the International Financial Reporting Standards.
- Provide timely and reliable net debt and total debt estimates for the 2017 Annual Budget and the Province's quarterly reports during the fiscal year including the Fall Economic Statement.

- Continue to provide timely and accurate financial reporting for the Province on debt, derivatives and investments. Continue to provide timely and accurate agency financial statements that pass scrutiny of the OFA Board and the Office of the Auditor General.
- Continue to work with the Office of the Provincial Controller on providing value-added feedback on Chapter 2 of the Annual Report of the Auditor General of Ontario that deals with Ontario's Public Accounts.
- Continue to monitor and assess any new accounting developments of the International Accounting Standards Board, the Financial Accounting Standards Board in the U.S., the Accounting Standards Board and the PSAB of the Chartered Professional Accountants of Canada that affect reporting for the Province and its agencies.
- Continue to work with Deloitte Inc. in consulting with the accounting and borrowing communities of the other provinces towards providing PSAB with concerns expressed by these jurisdictions and Ontario. Also with Deloitte Inc., collaborate on developing options that address the provinces' concerns. Continue to liaise with the Office of the Provincial Controller and, where required, the Office of the Auditor General of Ontario in communicating with PSAB.

5. *Advise on and implement corporate and electricity finance projects and policies*

Overview

The OFA provides financial modelling, analysis and advice to the Ministry of Finance, other ministries, OEFC, Crown agencies, and other public bodies, on financial policies and projects, electricity sector policies and initiatives, and borrowing from capital markets. The OFA also provides assistance in structuring and completing financial transactions, and securing and using private sector financial advisers. The OFA has been leading the implementation of the Trillium Trust and will also continue to work with the Ministry of Finance, other ministries, and Infrastructure Ontario on on-going asset optimization initiatives, including unlocking the value of certain real estate assets. The OFA is providing analysis and support as the Province moves forward in selling up to 60 per cent of its shares of Hydro One over time.

The OFA will also continue to support and facilitate the implementation of a number of other government initiatives, including the Cap and Trade Program and investing in Ontario's venture capital sector.

Implementation Plan

- Provide analysis and advice on business cases and other financing proposals. Develop the structure and negotiate the detailed terms and conditions of transactions to minimize costs and best meet market expectations.
- Provide advice on cost-effective borrowing, investing and risk management by public bodies.
- Provide advice on transactions requiring a provincial guarantee or those that may otherwise increase the indebtedness or contingent liabilities of Ontario.
- Develop interest rate and other borrowing, investing and risk management policies, and advise ministries, agencies and public bodies on interest rates and other financing issues.
- Support initiatives for Ontario's various industry sectors.
- Provide continued support for the government initiative on OFA loans to public bodies.
- Provide support to the government on Ministry of Finance loans and loan guarantees as required.
- Continue to provide advice to ministries, Crown agencies and other public bodies on financing, loan structuring and credit enhancement strategies.
- Provide advice as required on evaluating the Province's assets, including investments in its business enterprises, and analysis and advice on asset optimization to enhance efficiency and maximize value.

- Provide policy and financial analysis, and modelling support, as required, for electricity policies and initiatives that could have fiscal, financial and/or economic implications for the Province and/or OEFC, including the following:
 - *The Ontario Rebate for Electricity Consumers Act, 2016.*
 - Ongoing implementation of the Industrial Electricity Incentive program.
 - Ongoing implementation of the NIER program.
 - Expanding the Industrial Conservation Initiative.
 - Electricity supply and conservation initiatives.
- Provide financial due diligence and advice to the Minister of Finance on applications received under the ALGP.
- Monitor and provide electricity sector fiscal and financial projections for the Province and OEFC, including analysis and advice to the Minister of Finance on the stranded debt, as well as continued reporting on OEFC's revenue sources (e.g. the debt retirement charge (DRC) for non-residential users, now legislated to end on April 1, 2018, and payments in lieu of taxes) and expenses (e.g. interest on debt).
- Provide analysis and advice to support the effective administration of ONFA and other initiatives related to nuclear liabilities, including monitoring and reviewing OPG's implementation of its ONFA Reference Plan as updated from time-to-time, approval of yearly ONFA budgets including investment related expenses, reviewing OPG's expected financial guarantee submission to the CNSC expected in 2017, including reviewing, monitoring, and seeking approval on any implications on a Provincial guarantee to the CNSC, as provided for under ONFA.
- Provide analysis and advice on nuclear supply, financing and cost recovery issues, including for nuclear refurbishments.
- Continue to monitor, review and support policy discussions on developing the Ring-of-Fire.
- Continue to work closely with staff at the MRIS and OCGC on approaches for managing the Province's investment in the Ontario venture capital sector. Support the CEO's role as Vice Chair of the OCGC Board.
- Provide analysis and due diligence related to Jobs and Prosperity Fund applications and relevant Eastern Ontario Development Fund and Southwestern Ontario Development Fund applications.
- Continue to support the government's asset optimization initiative of broadening the ownership of Hydro One by providing financial analysis and advice, and dedication of net revenue gains from these transactions to the Trillium Trust to support investments in infrastructure.
- Provide coordination and oversight of certain real estate asset optimization initiatives, such as, the divestment of OPG's head office properties, and Seaton and Lakeview lands.
- Lead implementation of the Trillium Trust to help support investments in transit, transportation and other priority infrastructure.

6. *Ensure the successful activation of OFA's decentralized Business Continuity Plan (BCP).*

Overview

The BCP remains in place and is updated as required to be successfully activated so staff can complete critical time-sensitive tasks in the event of a business disruption.

Implementation Plan

- Review and update the Corporate BCP Framework.
- Review and update Business Unit plans.
- Plan and conduct corporate-wide BCP test exercises.

- Review corporate BCP Command and Support Team membership.

Implementation of the above strategic directions will require regulatory compliance and reliable information technology.

RISK IDENTIFICATION AND ASSESSMENT

Summary Table

Accountability	Risk Assessment	
P Primary	L Low	H High
X Additional	M Medium	EH Extremely High

Risk Assessment Summary		Accountable Business Division						Risk Assessment		
		Capital Markets	Corporate & Electricity Finance	Finance and Treasury	Legal	Risk Control	Strategic Corporate Services	Likelihood	Impact	Overall Assessment
Strategic Risks	Strategic / Policy Risk	P	X			X		L	EH	H
	Meeting Stakeholder Expectations	P		X				M	EH	H
	Public Image	P		X				L	H	M
	Quality of Relationship with Stakeholders	P		X		X		L	H	M
Accountability / Governance	Governance, Information, and Regulatory Compliance	X		P	X			L	H	M
	Risk and Issue Management			X		P	X	L	EH	M
	Statutory Requirements are met				P			L	H	M
	Reliability of Financial Systems			P				L	H	M
Operational	An economic slowdown straining the fiscal plan, thus affecting the borrowing program	P						M	H	H
	Financial Market Risk	X				P		M	H	H
	Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt	P						L	EH	H
	Risk of credit rating downgrade	X				P		M	H	H
	Credit Risk	X				P		L	H	M
	Electricity Policy and Price Risk		P					M	M	M
	Operational, including systems, internal control, and reputation risks	X	X	X	X	X	P	L	H	M
	Service Providers (e.g. custodians, fiscal agents, banks, etc.)			P				L	M	L
	Low investment returns or inadequate investment controls on nuclear funds	P						M	H	H
	Default on Loans to Public Bodies		P					L	L	L
	Default on Guarantees under the ALGP		P					L	L	L
	Increased borrowing to fund loans to public bodies		P					L	L	L
	Government Cost Constraints			P				M	H	H
	Employee Fraud			P				L	M	L
Workforce	Human Resource Risk	X	X	P	X	X	X	M	EH	H
Information Technology and Infrastructure	Privacy and Security						P	L	M	L
	Business Continuity						P	L	H	M
	Procurement			X			P	M	M	M

Risk Identification, Assessment, Mitigation Strategies

The following section identifies potential risks that could impact the entire organization in its ability to successfully deliver its programs and activities on behalf of the Province.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: STRATEGIC RISK AREA: Strategic: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with those of the OPS). The risk that strategies and policies will fail to achieve required/targeted results. The risk of failing to provide value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.					
Strategic/ Policy Risk Primary Accountability: Capital Markets Division	Strategies and policies fail to achieve required results. Prime examples are failing to meet the borrowing requirements and failures in implementing core risk management strategies.	<u>LOW</u> Past experience indicates that the likelihood of major strategic failures is relatively <u>low</u> as they cannot always be eliminated. There are elements of borrowing and risk management which are outside the Province's control which can negatively impact required results. For example, financial conditions could result in higher interest costs or interest rate risk than anticipated or refinancing risk in future years may be much higher than desired if investor demand for longer term bonds is substantially reduced.	<u>EXTREMELY HIGH</u> The financial consequences of strategic failures in borrowing or risk management strategies and associated policies can be <u>extremely high</u> , and the annual Financing, Debt & Electricity Management Plan outlines strategies which attempt to address the challenges, including contingencies for unexpected events. In addition, management monitors major market and policy developments throughout the year very closely and will develop and implement new strategies and policies if conditions warrant. Even though the likelihood of major strategic failures is low, the impact remains extremely high resulting in an overall high risk assessment.	<u>HIGH</u>	Strategic plans and policies to mitigate strategic and policy risk are initially developed and implemented in a thorough manner as outlined in the OFA's annual Financing, Debt & Electricity Management Plan ("the Plan"). This includes an analysis of risk factors and contingency plans. The Plan is approved by the respective Boards (OFA and OEFC) and receives input from Board members. Market conditions and policy developments are monitored on a continual basis throughout the year to identify new and emerging developments which could impact strategic and/or policy risks. Existing control strategies are modified as required to mitigate adverse developments. Procedures are in place to ensure that staff are aware of relevant policies. Policy violations are rare, and a robust control framework exists to identify violations quickly. Most violations would not have a large enough impact to threaten achieving required strategic results.
Meeting stakeholder expectations	The risk that the OFA may fail to meet stakeholder expectations, including those of the Province and other public bodies.	<u>MEDIUM</u> There is a <u>medium</u> likelihood of failure to meet stakeholder expectations and performance	<u>EXTREMELY HIGH</u> Given that the impact of not meeting stakeholder expectations can be <u>extremely high</u> , combined with a	<u>HIGH</u>	An analysis of risk factors and contingencies is included in the OFA's annual Financing, Debt & Electricity Management Plan. This analysis is revisited throughout the year.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Capital Markets Division	Stakeholder expectations include strategic/policy risk factors as well as the risk of failing to meet performance benchmarks.	benchmarks. Market factors tend to be relatively unpredictable and many factors are out of OFA's control. The current environment of expanding service requirements and constrained resources adds some risk; however, it is expected to be minimal. Based on past experience, it is expected that most stakeholder expectations will be met.	medium likelihood the net result is a high risk assessment. The impact of a one percentage point increase in yields was estimated to be \$350 million for 2016–17. Although the OFA has been able to extend the borrowing term in recent years, interest rate risk will remain elevated for several years. Continuous communication with the Deputy Minister and Minister ensures that expectations for the Province are clearly understood. Commitments are made after thorough and careful analysis to ensure that resources and expertise are in place to meet those expectations. Close and continuous communication and meetings with relevant public bodies (e.g. Agencies) who use our services ensures that expectations and service requirements are clearly understood. In addition, formal service level agreements (e.g. investment management agreements) have been developed which clearly outline the services and benchmark performance standards.		Given the relatively unpredictable nature of market factors, ongoing monitoring of market and policy factors provides a level of risk mitigation. Continuous dialogue with stakeholders and regular reporting are also useful in keeping abreast of both expectations and performance. Emerging issues which may affect expectations are identified and are regularly reported to the Deputy/Chair as well as the Board (OFA and OEFC). This provides greater assurance that expectations will be met or managed through approved mitigation strategies. Meeting performance benchmarks for the Province and other public bodies also depends on adequate resources being available to maximize performance. This includes information systems services, and most importantly, staff. A highly educated and experienced workforce provides a higher likelihood that stakeholder expectations will be met. The OFA works to attract and retain highly qualified staff.
Public image Primary Accountability:	The risk that the OFA may damage its reputation with stakeholders and third party service providers.	<u>LOW</u> The likelihood of reputational risk to the OFA is low.	<u>HIGH</u> The impact of image problems can be high which combined with a low	<u>MEDIUM</u>	Public image risk is mitigated through a host of strategies: i) a strong policy framework to provide greater information to staff to make them aware of potential public image problems; ii) strong internal controls to reduce the risk of policy violations and

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Capital Markets Division		There are extensive policies to govern staff conduct including, with respect to conflicts of interest, procurement and workplace harassment. In addition, procedures are in place to ensure that staff are aware of all policies. There are also regular reporting requirements and internal controls to reduce the potential for policy violations. Dealings with the press are handled through official MOF communication staff and investor and other stakeholder information is handled with extreme care. Accordingly, the likelihood of reputational risk problems with stakeholders and service providers is low , although mistakes can happen and there are certain factors which the OFA cannot control.	likelihood results in an overall medium risk assessment.		adverse information releases; iii) public communication protocols to reduce the risk of incorrect and damaging information releases; iv) an investor relations program which is responsive to investor needs and responds to investor requests for information promptly; v) ongoing dialogue with dealers to keep abreast of information in the marketplace relating to both Ontario and the OFA; and vi) a management structure and culture which promotes security of information and extreme care in disclosing information in a public forum. Strategies iii-v involve constant communication with external stakeholders. This feedback loop provides the OFA with a method of assessing the organization's public image. The OFA has a comprehensive procurement policy that ensures that its suppliers and service providers are selected in a fair manner. When appropriate, the OFA requires that service providers obtain security clearance. OFA contracts with service providers address confidentiality and contract precedents generally require approval before a contractor may use its association with the OFA for any purpose. All substantive contracts that Capital Markets enters into in the name of the OFA must be reviewed by the OFA Legal Branch. All substantive contracts that Capital Markets enters into in the name of the Province, must be reviewed by MOF Legal.
Quality of relationship with stakeholders	The risk that the OFA's stakeholder relationships are poorly managed.	<u>LOW</u> The likelihood of failure managing OFA's stakeholder relationships is	<u>HIGH</u> The quality of the business relationships with stakeholders that the OFA is	<u>MEDIUM</u>	The OFA provides relevant, non-confidential information to investors in a fair and transparent manner, including information pertaining to the Budget and quarterly finances. Confidential information is handled in a manner consistent with laws and regulations, such as the <i>Public</i>

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Capital Markets Division		<u>low</u> as the OFA strives to deal with all of its stakeholders in a fair, transparent and responsive manner.	engaged in such as investors, credit rating agencies, dealers and employees can have a high impact on the success and cost of OFA activities. However, the likelihood of failure in these activities is relatively <u>low</u> which results in an overall medium risk assessment.		<i>Services Ontario Act, 2006</i> and the <i>Securities Act, 1990</i>. The annual Investor Relations Plan is developed each year with the goal of providing updates to investors, both domestic and international, on a regular basis through outreach and information products. Requests for information or meetings from investors are responded to very promptly. The quality of the Province's relationships with stakeholders is constantly monitored. Should the strategies in the annual Investor Relations Plan fail to achieve the desired relationship levels, the OFA can choose to engage additional financial dealers or more senior Ministry of Finance representatives to participate in its investor outreach activities. Dealers are utilized in a fair and objective manner for bond issues. A syndicate evaluation is used to rank domestic dealers objectively, and commissions for domestic bond issues are based on this annual evaluation. Dealers thus know the OFA's service priorities and understand their bond issue allocations for the year. International issues also utilize dealers based on their level of service and strengths they bring to particular markets and issuance opportunities. The OFA continuously communicates with its dealers and also has regular meetings with them, and thus relationship issues tend to be dealt with quickly. Given the high importance of Ontario's credit ratings to its borrowing program, the OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to requests for information, and facilitates participation of more specialized or senior government officials as required.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: ACCOUNTABILITY / GOVERNANCE Governance/ Accountability/ Organizational Risk: Risk that the organizational structure, accountabilities or responsibilities are not defined, designed, communicated or implemented to meet the organization's objectives, and/or that culture and management commitments do not support the formal structures. Risk of conflict of interest for board members. Inadequate ethics / codes of conduct. Inadequate definitions of roles and responsibilities. Risk of failure to comply with administrative requirements, such as directives. Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, Memorandum of Understanding or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.					
Governance, Information and Regulatory Compliance Primary Accountability: Finance and Treasury Division	The risk that oversight and governance responsibilities are not clearly defined; the risk that internal and external information produced or used is incomplete, out-of-date, inaccurate, irrelevant or inappropriately disclosed.	<u>LOW</u> The likelihood of failing in this area is <u>low</u>. Various policies and procedures define roles and responsibilities required for effective governance, including oversight by the OFA Board, chaired by the Deputy Minister of Finance, and largely comprised of independent, external members; and reporting requirements to the Minister of Finance. Furthermore, the audits by Internal Audit Division that cycle over all major functions of the OFA include a review of the associated policies and procedures and to date no material gaps have been identified. All audit recommendations are presented to the OFA ARMC and addressed within reasonable timeframes.	<u>HIGH</u> The impact of failing in this area is <u>high</u>; however, combined with the low likelihood of this happening results in a medium risk assessment	<u>MEDIUM</u>	Regular and special meetings of the OFA Board and its Committees, comprised of the Audit and Risk Management Committee (ARMC), Human Resources and Governance Committee (HRGC) and the ONFA Investment Committees (ONFA IC). The Deputy Minister of Finance is, pursuant to CIPA, the Chair of the OFA Board, which establishes a clear governance framework for OFA management and accountability to the Minister of Finance. The OFA uses secure communication procedures with internal and external parties; it also undertakes effective oversight of service providers, reconciliation processes, stringent disclosure policies, staff learning and development, and timely filing of regulatory reports.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk and issue management Primary Accountability: Risk Control Division Secondary Accountability: Finance and Treasury Division	The risk that the OFA may not effectively manage and mitigate financial risks including fraud risk.	<u>LOW</u> A review process established at the OFA that includes daily compliance monitoring, division of responsibilities, and a highly-developed and rehearsed response plan for emergencies results in a <u>low</u> likelihood.	<u>EXTREMELY HIGH</u> The OFA is a major participant in capital markets and has extensive dealings with banks on behalf of the Ontario government. As a result, the potential impact for errors and omissions is <u>extremely high given the associated high dollar value.</u> The extensive mitigation strategies employed by the OFA however, reduce the overall assessed risk to Medium.	<u>MEDIUM</u>	Financial risks associated with the OFA capital market activities are managed through the OFA risk management framework, which includes policies that are updated, reviewed by the Ontario Internal Audit Division and approved by the Board on an annual basis. Compliance with policies is monitored through a daily reporting cycle including where applicable on a real time basis, and credit risks are also monitored in real time. Fraud: Division of responsibilities between divisions to create a separate front, middle and back office for capital markets transactions and appropriate separation of duties and signing authorizations within divisions reduce risk of fraud. All staff is encouraged to report any wrongdoing at all times and senior management is asked to confirm quarterly whether they are aware of any wrongdoing. Issues management: In addition to a monthly Capital Markets update letter, the CEO also reports on any issues or concerns quarterly to the Board and has regular meetings with the Chair. Division Heads/Directors report quarterly to the Board on their area's progress in achieving the objectives identified under the Annual Business Plan. The OFA's financial statements are prepared and presented on a quarterly basis to the ARMC and the Board. They are also shared with senior staff of the Office of the Auditor General. The OFA provides the interest-on-debt, debt and derivative information that is presented in the Public Accounts of the Province. The numbers and the process including the

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
					underlying internal controls are audited annually by the Office of the Auditor General. Up to now, no material issues have been identified as part of this audit. OFA prepares issues notes, and feeds into the Ministry's communications branch for issues management and to address contentious issues. The Ontario Internal Audit Division develops a three year audit plan for the OFA that is updated annually. Audits under this plan, as well as special reviews as and when required provide an overall comfort level. The ARMC conducts in camera sessions with internal audit, staff of the Office of the Auditor General and the OFA's Chief Financial and Risk Officer at each quarterly meeting during which they are free to candidly raise any concerns about overall risk and issues management issues at the OFA. To avoid financial risk resulting from an inability to function during an emergency, the OFA has a highly-developed and rehearsed response plan for emergencies, addressing key risks such as fire, terrorist attack, pandemic or other threat. The work of the OFA can be carried out with all staff working from home. The OFA also maintains a collocate site at a remote location that houses a continuously available, mirrored IT infrastructure. Staff are subject to randomly declared, OFA-wide, work-from-home drills at least annually. OIAD reviews and comments on business continuity test results.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Statutory requirements are met Primary Accountability: Legal Division	Risk of non-compliance with statutory requirements	<u>LOW</u> The likelihood of non-compliance is considered <u>low</u> because OFA staff have experience and awareness regarding legal compliance in relation to the performance of their jobs. While regulation in some areas (such as in capital markets and the banking and payment card industry) is complex and continues to evolve, program areas have ready access to legal advice.	<u>HIGH</u> Impact is considered high since failure to comply with a statutory requirement could negatively affect the reputation of the OFA and the Government. Also, violations relating to capital markets operations could have serious financial implications. Combined with a <u>low</u> likelihood, the resulting overall risk assessment is medium.	<u>MEDIUM</u>	Currently, the OFA and Ministry of Finance Legal Branches advise of statutory requirements and changes affecting OFA operations and also are available to advise on steps to effectively address any non-compliance. Information on legal requirements relating to Public Servants is distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO and the Board of Directors. CEO/Board direct remedial action (which may include learning and development). Education is encouraged and Divisions budget for necessary learning.
Reliability of financial systems Primary Accountability: Finance and Treasury Division	The risk that the OFA's financial information and reporting system is not reliable or fails to meet quality standards.	<u>LOW</u> The review process that the OFA has established including audits by the Internal Audit Division and the Office of Auditor General of Ontario ensures that the likelihood of occurrence is <u>low</u> .	<u>HIGH</u> While the impact of less than reliable financial information is indeed <u>high</u> , the low likelihood of this happening results in an overall medium risk assessment.	<u>MEDIUM</u>	The OFA has well-established processes and procedures for monitoring and reporting on its financial performance to its ARMC and Board of Directors and to the ministry as well as the Office of the Treasury Board. OFA financials are prepared on a quarterly basis for discussion, and shared with the staff of the Office of the Auditor General and approval by the ARMC and Board of Directors. In addition the OFA financials are audited annually by the Office of the Auditor General who has provided unqualified opinions on all past financials. Staff of the Office of the Auditor General also audit, on an annual basis, the OFA's work on the Province's debt and interest on debt. This annual audit includes reviewing the underlying systems and internal controls. Up to now, no material issues have been identified and the OFA has implemented all recommendations arising from this audit. Changes to accounting pronouncements are also addressed during the quarterly discussions with the ARMC and

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
					the Office of the Auditor General. Annual budgets and audited financials are submitted to the Ministry as per TBS requirements. A further level of assurance exists as a result of the work carried out by the Ontario Internal Audit Division (OIAD). OIAD develops a 3 year audit plan with consultation from Division heads and all finding and recommendations are presented to the Audit and Risk Management Committee of the OFA Board. The OFA's progress in implementing recommendations are also presented on a quarterly basis to the same committee.
Debt and Risk Management Risk Category: OPERATIONAL RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.					
An economic slowdown straining the fiscal plan, thus affecting the borrowing program. Primary Accountability: Capital Markets Division	Fiscal strain stemming from a significant economic slowdown would likely result in higher borrowing requirements. This could be experienced as much larger borrowing requirements over a fairly short time horizon or consistently higher requirements over a longer time period.	<u>MEDIUM</u> The possibility of a major downturn in economic activity or longer term slow economic growth is given a <u>medium</u> likelihood due the historical frequency of such events. The last recession was approximately eight years ago. Since then, the Ontario economy has had only modest growth in recent years, with MOF projections showing a continued trend of low to medium economic growth.	<u>HIGH</u> The impact on the borrowing program will depend in part on the extent of the economic slowdown. A large economic slowdown, perhaps a recession, would have a large impact on the borrowing program over a couple of years, but persistent sub-par growth would also be painful. The impact of a one percentage point change in nominal GDP was estimated to be \$890 million for 2016-17. The world economy is currently highly reliant on U.S. economic growth and would be at risk if that fades. Given that Ontario's borrowing requirements are already quite large, the impact	<u>HIGH</u>	The Capital Markets Division is in constant contact with external economic experts who provide forecasts and analysis on the Province's economy as well as other major economies around the globe (including Canada's). In addition, the OFA is provided with a wealth of forecasts and economic insight from the Ministry of Finance. The OFA undertakes its borrowing strategically to reduce the effects of forecasted events and also looks to pre-borrowing to the extent possible. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
			would likely be high, meaning that interest costs could increase appreciably. One result could be a reduced average term of borrowing to reduce borrowing costs or respond to reduced demand for longer term debt which would increase refinancing and floating rate risk. There could also be pressure to increase foreign exchange or counterparty credit exposures in order to reduce costs. The overall assessment of this risk is high .		
Financial market risk Primary Accountability: Risk Control Division	Higher-than- forecast borrowing requirement and/or interest rates, resulting in higher annual interest-on-debt (IOD) charges. Financial loss attributable to changes in interest rates, credit spreads, foreign exchange and liquidity risk.	<u>MEDIUM</u> Higher-than- forecast borrowing requirement and/or interest rates is given a <u>medium</u> likelihood due the historical frequency of interest rate changes, and the current medium-term forecast of provincial borrowing requirements.	<u>HIGH</u> The size of the province's annual borrowing requirement creates a <u>high</u> degree of sensitivity to market conditions, especially interest rates. IOD has generally produced cost savings compared to budget forecasts due to cost effective debt management, as well as interest rates that have been trending down for about 35 years. This experience may not be expected to continue, so financial market risk is assessed as being high. In the <i>2016 Budget</i> , it was estimated that a one percentage point increase in interest rates would have impacted IOD by approximately \$350 million for 2016–17.	<u>HIGH</u>	Sound and effective risk management infrastructure, including policies, procedures, risk management reporting, and Information Technology (IT) systems. The OFA uses a conservative risk limited approach to forecasting interest on debt expenses. This is achieved by using interest rate forecasts provided by the Office of Economic Policy for the two out years and a 15 year interest rate average for the third out year. Accurately measure and assess portfolio exposures and ensure compliance with the related limits as approved by the Board, including foreign exchange and net interest rate resetting exposure limits and IOD. Maximum foreign exchange exposure of five per cent. Maximum net interest rate resetting exposure of 35 per cent. Maximum loss policy on IOD of three per cent of budgeted IOD. The OFA has reduced the sensitivity of IOD to interest rates by extending the term of recent borrowings. It also maintains

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
					exposure to foreign currency at levels far below the five per cent limit. While the policy limit for net interest rate resetting exposure is 35 per cent, the annual debt management plan sets out ranges that are usually considerably lower thus further limiting the risk.
Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt Primary Accountability: Capital Markets Division	Unable to achieve the borrowing program target of a particular fiscal year.	<u>LOW</u> The likelihood of not completing the borrowing program is low and would be based on a major market disruption or a major adverse credit situation at the Province. Both events are considered to have a low likelihood.	<u>EXTREMELY HIGH</u> The consequences of a major market disruption or a major adverse credit situation at the Province would obviously be extremely high , and thus overall risk is high.	<u>HIGH</u>	The OFA continually monitors demand for its bonds and has a strong relationship with its financial dealers. The OFA is aware, through external forecasts, Ministry of Finance advice, and its own analysis of bond markets, of the faith investors place in its bond offerings. The Capital Markets Division employs financial strategies, to reduce the effects of forecasted events. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program. The OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to request for information, and facilitates participation of more specialized or senior government officials as required.
Risk of credit rating downgrade	Risk that a credit rating downgrade from a major credit rating agency results	<u>MEDIUM</u>	<u>HIGH</u>	<u>HIGH</u>	Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Risk Control Division	in increased costs to borrowing program and/or reduced market access.	The likelihood of a credit rating downgrade is medium . The OFA has regular meetings with the agencies, and is regularly advised of rating agency concerns. Based on regular meetings with agencies and outperformance of its fiscal targets in recent years, the risk of a credit downgrade is not considered to be high, although debt levels remain high.	A credit rating downgrade, could reduce the pool of investors able to buy Government of Ontario bonds. As a worst-case, investors might be forced to sell, creating competition for our primary distribution, therefore resulting in a high impact for the Province. Note: This risk is assessed as high. The best mitigating strategy, reducing the size of the provincial deficit, is not a variable that is under the control of the OFA.		the Province's financial status priorities, and initiatives. Diversify funding sources. Increase investor relations activities. Ensure that decision-makers at Queen's Park continue to be mindful of the serious consequences of the Province not meeting or beating its deficit targets.
Credit Risk Primary Accountability: Risk Control Division	Risk that the Province incurs a significant loss because a counterparty does not meet, or defaults, on its obligations to the Province.	<u>LOW</u> The size of Ontario's borrowing program requires the OFA to be open to borrowing opportunities in a variety of currencies. As the OFA has opted to keep currency risk at very low levels, this requires that hedging transactions be entered into with bank counterparties, creating credit risk. A bank default is considered to be a low probability event.	<u>HIGH</u> A bank default would be a high impact event, however, the assessment is overall medium as a result of the OFA's implementation of a comprehensive mitigation strategy including collateralized swap agreement and limiting transaction to highly rated counterparties.	<u>MEDIUM</u>	Ensure compliance with a sound and effective credit risk management infrastructure, including: an overarching credit risk policy that is reviewed and approved by the OFA Board on an annual basis, transacting with highly rated counterparties, limiting credit exposure concentration, and ongoing monitoring of key indicators of credit and market conditions. The Province will continue to enter into collateralized swap agreements with more of its swap counterparties to limit its credit risk. Such agreements allow the Province to cap its credit risk by requiring counterparties to post collateral when marked-to-market exposures exceed specific thresholds.
Electricity related policy,	Government policy, accounting or regulatory decisions, electricity sector	<u>MEDIUM</u>	<u>MEDIUM</u>	<u>MEDIUM</u>	Provide financial analysis and advice to senior Ministry of Finance officials and government on electricity policy options and initiatives, and maintain

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
price and other risk Primary Accountability: Corporate & Electricity Finance Division	structure, and potential electricity price and market events may have an impact on the financial performance of the Province, including reduced payments to the OEFC from, for example, the Province, Ontario Hydro successor companies and municipal electricity utilities, or price mitigation measures such as the new Ontario Rebate for Electricity Consumers, thus affecting the borrowing program.	The likelihood of this risk is deemed medium . The fiscal contributions of the electricity sector can fluctuate for many reasons, including the performance of OPG and Hydro One vs forecast, policy decisions including the timing of Hydro One share sales, regulatory decisions and volatility in electricity demand/prices. Fiscal expenses are largely determined by policy decisions. Volatility and policy change impacts can be both upward and/or downward.	While the electricity sector has a significant fiscal impact, it is not large compared to the total size of the Provincial Budget. In addition, certain fluctuations are within the government's control and borrowing issues should be manageable within the larger envelope of the Province's total borrowing program. Therefore the impact is rated as medium , leading to an overall medium assessment.		relationships and work with other ministries and agencies. Monthly meetings, and as needed, with OPG to monitor and report on financial performance and updated projections versus plan, as well as monitoring of policy, accounting and regulatory issues that may have fiscal implications upon consolidation of OPG and Hydro One in Public Accounts.
Operational, including systems, internal control and reputation risks Primary Accountability: Strategic Corporate Services Division	Risk from inadequate or failed internal processes and IT systems or from external events. The possibility that internal controls may not safeguard assets or prevent errors or fraud. The risk that negative publicity about the OFA's business practices may lead to financial or reputation costs or litigation.	<u>LOW</u> The likelihood of this risk is deemed low . The OFA's mandate and operations in a capital markets environment requires the extensive use of information technology. The fact that the OFA's mandate has also increased over the past years with no corresponding increase in staff resources has also resulted in a dependence on information technology. While this has allowed for efficiencies, this dependence also gives rise to the risk that IT systems may be poorly specified, operate incorrectly, or that the use of combinations of systems may have unintended consequences.	<u>HIGH</u> The financial impact of such risks could be compounded by harm to the OFA's reputation, therefore its impact is deemed high . This risk, reduced by the mitigating strategy, is assessed as medium.	<u>MEDIUM</u>	Maintain state-of-the-art IT systems, conduct daily back up, frequent update and testing of BCP involving remote desktop and co-locate. Appropriate documentation and timely reporting; update financial controls based on best practices; continued involvement of Internal Audit in developing new functions and reviewing existing financial policies; ensure oversight of service providers. As part of its annual audit, the Office of the Auditor General issues recommendations on areas where they feel internal controls can be tightened. Monitor print media to identify OFA-specific issues to protect OFA's reputation. Centralized external communication strategy. Early involvement of legal counsel.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Service providers (e.g. custodians, fiscal agents, banks etc.) Primary Accountability: Finance and Treasury Division	Poor service from existing providers and/or lack of qualified service providers.	<u>LOW</u> The likelihood of this risk is deemed <u>low</u> . Service providers are selected through a rigorous competitive process that includes the submission of proposals covering performance standards and measures, followed by consistent internal monitoring of service quality.	<u>MEDIUM</u> Consistent internal monitoring ensures a <u>medium</u> impact for a low overall risk assessment.	<u>LOW</u>	All existing service providers provide services under a formal contract. Continue to implement and monitor service level agreements with existing providers. Continue to comply with selection criteria and contract management requirements in OFA procurement policy
Low investment returns or inadequate investment controls on nuclear funds. Primary Accountability: Capital Markets Division	If funds are not properly invested or general financial market returns are low or negative, substantial contributions could be required by one or both of the Province and OPG. In addition, the Province's reputation may be damaged if controls or investment policies deviate from industry best practices.	<u>MEDIUM</u> Prolonged poorer than targeted performance of the nuclear funds over the medium-term is given a <u>medium</u> likelihood. The nuclear funds have a very long time horizon and would be expected to have poor returns over some time periods but are required to earn real returns in excess of 3.25 per cent in the long run. The funds have exceeded the 3.25 per cent annualised real return benchmark on average since their inception in 2003, but there is some risk that cumulative average annualised returns may be inadequate in future or that the costs of decommissioning and used fuel disposal could well exceed current projections. Returns will be driven to a large extent by asset allocation and general investment returns in financial	<u>HIGH</u> The financial impact of poor performance could be quite substantial and is rated <u>high</u> given the size of the funds, and could result in substantial unexpected contributions from one or both of the Province and OPG. The overall risk assessment is high. Given the current size of the funds, a one percentage point decline in annual performance would equate to \$170 million in reduced value for the funds, which could affect future funding requirements. Such loss, however, will not translate dollar-to-dollar on the Province's annual statement of operations at consolidation, as the Province's revenue recognition related to the nuclear funds is based on historical cost, not fair value, and some of the	<u>HIGH</u>	The funds are diversified across asset classes and managers to reduce overall risk. Further diversification is being achieved as the funds move into alternative investments. The funds are also long-lived, and can be adjusted and returns recover over the long term, which result in the recovery of past Provincial contributions to cover investment return shortfalls, if any. In addition, a Statement of Investment Policies and Procedures (SIPP) and Statement of Investment Risk Policies (SIRP) are in place which outline basic policies which to a large extent address many of the risk factors. An extensive asset-liability study is undertaken every five years to attempt to optimize the asset allocation to meet the funds objectives to meet the cost requirements. Significant progress has been made in developing a comprehensive risk management framework which is expected to be implemented in 2017. In addition, the funds are closely monitored by staff and up to the respective Board levels by both the OFA and OPG including, for the OFA, by the ONFA IC. Unfortunately, the risk of sub-par returns cannot be entirely eliminated as it

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
		markets -- e.g., prolonged poor performance in equity returns or a general decline in the financial markets could be a driver of poor performance. Resourcing for the nuclear funds is relatively tight, although it is considered adequate. The likelihood of inadequate controls on the funds is assessed to be low.	impact is also mitigated by OPG's regulatory accounts for the funds related to the Bruce stations, under the Province's current accounting standards. In addition, the reputational impact of underperformance would also be high. The overall assessment of inadequate controls is high.		will be largely driven by the future market developments. Decommissioning and waste disposal costs and liability risk surprises are largely mitigated by the quinquennial ONFA Reference Plan update. The contribution schedules can be adjusted following a reference plan update to allow for returns in the funds to help cover liability revisions and past target rate of return shortfalls. The funds are audited on a regular basis which reduces the potential for fraud or other control problems. Staff monitor the funds very closely and are looking for irregularities. In addition, the funds are monitored up to the respective Board levels by both the OFA and OPG. The internal auditors of both OPG and the OFA are also proactive in examining control issues. The funds rely largely on external managers, and efforts are made to select highly professional managers who follow investment industry best practices.
Default on Loans to Public Bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of default by public bodies on OFA loans	<u>LOW</u> Although the OFA has restructured or provided a loan deferral in the past, this has been relatively rare, so an "unlikely" scenario (less than 20 per cent probability) is reasonable, and its likelihood is rated as low .	<u>LOW</u> Impact of a default may be "noticeable" and public, but loan write-downs to public bodies that are consolidated on the Province's financial statements would likely not create a fiscal impact, and, therefore, its impact is deemed low resulting in an overall low risk assessment.	<u>LOW</u>	Prior due diligence and analysis of debt repayment ability of public bodies on OFA loans. Ensure grant intercept mechanisms continue to be included in loan agreements. Early detection through loan monitoring by line ministry and restructuring of loan repayment terms.

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Default on Guarantees under the Aboriginal Loan Guarantee Program (ALGP) Primary Accountability: Corporate & Electricity Finance Division	In the event of a call on an ALGP guarantee arising from a default on the underlying loan, the fiscal impact would be recorded in the fiscal year in which the claim was paid.	<u>LOW</u> Debt service reserve account, ongoing monitoring, bank account controls are in place to mitigate risk of default.	<u>LOW</u> Any default would have a negative fiscal impact on the Province in the year in which the Province paid a claim pursuant to the guarantee. As guarantees are limited to a maximum of \$50 million (unless Treasury Board approves an exception), and the average is smaller, the impact is small in the Provincial context. However, there may be a reputational impact for the Province/OFA as well.	<u>LOW</u>	Ongoing monitoring of approved loan guarantees, including project performance and compliance with loan and guarantee agreements.
Increased borrowing to fund loans to public bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of unexpected loans that were not included in the OFA Annual Borrowing and On-Lending Plan.	<u>LOW</u> Over the past five years, only one unanticipated non-school board loan caused the OFA to breach its loan contingency reserve. An “unlikely” rating of less than 20 per cent probability of occurrence is, therefore, prudent, resulting in a <u>low</u> likelihood.	<u>LOW</u> In the overall borrowing plan, any unexpected loans would likely not have a “noticeable” effect, as most incremental borrowing is not material in the context of the whole borrowing program and therefore can usually be accommodated. This results in a <u>low</u> impact and a low overall risk assessment.	<u>LOW</u>	Ensure there exists an unassigned contingency equal to 10 per cent of forecasted loans to public bodies. Push off less urgent loans for execution in the following fiscal year. For OLG and LCBO, request business updates from Regulatory Agency Oversight Division (RAOD) to identify potential borrowing requirements (e.g. for site expansion); include estimates in Borrowing and On-lending Plan. Where a policy decision is taken requiring the OFA to provide funding for a strategic project, facilitate private sector financing, especially if interest cost savings are only deemed to be minimal.
Government cost constraints	Cost constraints may limit the OFA’s ability to provide services in a timely manner.	<u>MEDIUM</u> While good budgeting process and budget to actual comparison exists,	<u>HIGH</u> If budgetary constraints are severe enough the delivery of core services will	<u>HIGH</u>	Timely budget preparation in accordance with PRRT requirements. The budget preparation process is aimed at allocating resources according to priorities.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Finance and Treasury Division		the OFA is not insulated against budgetary constraints. The likelihood is deemed <u>medium</u> .	be impacted justifying a <u>high</u> impact and high overall risk assessment.		Detailed planning and monitoring to meet priorities within cost constrained environment. Comparison on a quarterly basis between budget and actual to ensure that priorities are being met within approved expenditures. Effective financial management on a year by year basis that ensures minimal variances between budget and actual. The OFA also retains its surplus which can act as a source of funds to meet non salary related expenses upon approval from the Ministry of Finance.
Risk Category: WORKFORCE					
RISK AREA: Workforce: Operational Workforce Risks.					
Employee Fraud Primary Accountability: Finance and Treasury Division	Risk that losses will be incurred because an employee is dishonest.	<u>LOW</u> The likelihood is <u>low</u> due to stringent internal controls and systems that cannot be easily circumvented.	<u>MEDIUM</u> The impact is deemed to be <u>medium</u> resulting in an overall low risk assessment.	<u>LOW</u>	Continue to communicate code of values and measures for disclosing wrongdoing to OFA staff. Strong system of internal controls, including segregation of duties, which are regularly reviewed by internal auditors as well as the Office of the Auditor General. While no material issues have been identified to date from these audits that essentially cover the full fiscal year, all audit recommendations have been implemented. Detailed and timely exception reporting with managerial oversight.
Human Resource Risk Primary Accountability:	Risk that highly trained and specialized staff will not be available due to resignations, retirements, turnover, inability to hire, lack of skills, illness, etc.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The issue has gained traction due to the disparity between pay scales in other agencies and pension funds	<u>EXTREMELY HIGH</u> The impact is deemed <u>extremely high</u> resulting in an overall high risk assessment.	<u>HIGH</u>	Hire qualified staff; develop and implement staff retention strategies with assistance from the OFA Board and Human Resources Committee, provide support and training, where feasible provide competitive salary and benefits, foster a good and efficient working environment and a culture that

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Each Hiring Division, with support from the Strategic Corporate Services Division		compared to their OFA counterparts. As a result, overall, the pool of applicants to positions at the OFA has diminished over the past few years. Although most positions have adequate backup and succession planning, there are some areas within the OFA that are tightly staffed and some positions are highly specialized which creates vulnerability. In addition, compensation constraints have limited the ability to adequately replace staff externally at comparable experience and skill levels.			recognizes and rewards merit, set out performance plans and monitor, recognize and value achievements, good communications and teamwork, and implement employee engagement strategies. Offer results-based pay for performance, and a comprehensive and flexible benefits package. Maintain unique compensation structure for A/XOFA positions. At the end of 2016, consistent with OPS compensation, salary increases occurred for certain OFA employees, and the OPS has announced a restructuring of its non-bargaining and management compensation to be implemented over a four-year period. It is too early to tell whether these changes are sufficient to reverse the recent trend of disappointing responses to positions advertised externally and an inability to attract qualified candidates for positions in the A/XOFA classification and others including those requiring accounting designations and specialized formal education in financial engineering and information technology or investment and corporate finance experience.

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Risk Category: INFORMATION TECHNOLOGY & INFRASTRUCTURE RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.					
Privacy and security Primary Accountability: Strategic Corporate Services Division	Risk related to the agency's handling of sensitive/confidential information on behalf of the government Potential compromise of confidential information or personal data through identity theft, or unauthorized electronic or physical access of information	<u>LOW</u> The risk is considered <u>low</u> , as management ensures that staff are cognizant of the importance of information security.	<u>MEDIUM</u> The impact is deemed <u>medium</u> , resulting in an overall low risk assessment	<u>LOW</u>	Access to all electronic data requires authentication. Security of electronic and hard copy information is provided by enterprise IT perimeter security solutions, key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a regular basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply. New staff who work on the government's Budget are provided with training on the importance of budget security.
Business continuity Primary Accountability: Strategic Corporate Services Division	Risk that the processes in place to ensure that critical I&IT systems are not available for operation to support business requirements (disaster recovery & business continuity planning)	<u>LOW</u> The risk is considered <u>low</u> , as the OFA has a comprehensive Business Continuity Plan (BCP) which is regularly tested.	<u>HIGH</u> The consequences for the OFA not being able to carry out its business, even for one day, would be severe, therefore its impact is deemed <u>high</u> . As a result, the OFA maintains a twin of its IT infrastructure in a separate disaster recovery location (DR Site), which reduces the overall assessed risk to medium.	<u>MEDIUM</u>	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's DR Site. Critical production systems are routinely run out of the DR Site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes mobile devices and remote access services. Periodic drills are held to ensure that staff are able to use the OFA's BCP infrastructure in a productive manner.

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Procurement Primary Accountability: Strategic Corporate Services Division	The procurement process has intensified in the past year causing significant project delays. The workload required to manage the process has not been offset with additional resources, annual budgeting has been impacted as projects timelines are difficult to determine and the organization is challenged to keep pace with changes in technology.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The OFA operates within the government procurement framework, adapted to its own unique requirements. The requirement to adhere to complex public sector procurement rules, as set out in the OFA's Procurement Policy has the potential of slowing down urgently needed IT infrastructure, creating a degree of risk. Some streamlining of the process has been carried out, reducing the assessed risk to medium.	<u>MEDIUM</u> The impact is deemed <u>medium</u> , resulting in a medium overall risk assessment	MEDIUM	Standardized approval forms and RFX (Request for Information, Proposal or Quotation) precedent templates streamline the procurement process. Establishing Service Level Agreements within the organization to ensure consistent timelines for document review and approvals will help ensure project deadlines are achieved. When project and procurement plans are hindered by lengthy standard procurement process, priorities will be revisited. In some circumstances, CEO approval of an exemption or a different process may be requested, if available.

ENVIRONMENTAL SCAN

Economic Conditions

The economic outlook for Ontario as described below is based on the average private sector view as of January 2017. As with all projections, there are positive and negative risks to the outlook. The most significant immediate risks to the outlook are rising interest rates and uncertainty regarding future U.S. economic policy. For business planning purposes, the OFA recognizes that it may confront increased demands to provide financing and other services.

Ontario's economy continues to grow in an uncertain global economic environment. Ontario real GDP increased 2.5 per cent in 2015. Private-sector forecasters, on average, estimate Ontario real GDP will grow by 2.6 per cent in 2016, 2.3 per cent in 2017, 2.2 per cent in 2018 and 2.0 per cent in 2019. The economic outlook is influenced by external factors, such as U.S. economic growth, oil prices and the Canadian dollar. Steady growth in the U.S. economy, along with the ongoing impacts of a more competitive Canadian dollar and low oil prices, continues to support Ontario's economic growth. Ontario's economy is expected to strengthen as growth broadens across major sectors of the economy, including household spending and exports. The recent increase in interest rates and the uncertainty tied to U.S. trade policy represents a downside risk to the Ontario economic outlook.

The United States is Ontario's largest trading partner, accounting for 80 per cent of the Province's international merchandise exports in 2015. Economic growth in the U.S. strengthened to 2.6 per cent in 2015 after rising by 2.4 per cent in 2014. According to the January 2017 Blue Chip consensus outlook, the U.S. economy is expected to grow by 1.6 per cent in 2016, 2.3 per cent in 2017 and 2.4 per cent in 2018.

The price of WTI (West Texas Intermediate) crude oil fell by over 70 per cent from its June 2014 peak of \$108 US per barrel to below \$30 US per barrel in early 2016, a reflection of strong supply and weaker global demand. WTI oil prices averaged \$43 US per barrel in 2016, down from \$49 US per barrel in 2015. The recent agreement between the Organization of the Petroleum Exporting Countries (OPEC) and other oil producers to reduce output has led to a rise in the price of oil. The current private-sector forecast average for the WTI price of oil is \$54 US in 2017 – well below levels recorded over the 2010-14 period.

Sharply lower oil prices and diverging monetary policy between Canada and the United States contributed to a depreciation of the Canadian dollar to an average of 78.2 cents US in 2015, down from 90.5 cents US in 2014. The Canadian dollar declined further in 2016, averaging 75.4 cents US. On average, private-sector forecasters expect the Canadian dollar will average 74.5 cents US in 2017.

Ontario's housing market continued to strengthen in 2016 alongside solid increases in the number of households and incomes. Sales of existing homes and resale prices rose 9.4 per cent and 15 per cent, respectively in 2016. Ontario housing starts also increased in 2016. Private-sector economists expect a soft landing in the Ontario housing market. Home resales and prices are projected to stabilize over the next few years as gradually rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand.

There are risks surrounding the housing market outlook. Home price gains in Ontario have outstripped incomes in recent years, fuelling mortgage debt accumulation. As a result, affordability in Ontario's housing market has eroded. Despite historically low mortgage rates, monthly carrying costs are elevated relative to long-term trends. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable in the event of an adverse economic shock.

Financial Markets

Moderate economic growth and headline inflation still operating below the 2 per cent target has prompted the Bank of Canada to hold the target overnight rate at 0.5 per cent since mid-2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.

In the United States, the Federal Reserve raised rates at its December 2016 meeting, citing a strengthening labour market and rising inflation. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, monetary policy in the European Union remains highly accommodative. In January, the European Central Bank announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases."

In Canada, while long-term interest rates are expected to remain at historically low levels, they are projected to gradually rise over the next few years. The expected onset of interest rate hikes by the U.S. Federal Reserve combined with the result of the recent U.S. election has already put upward pressure on Canadian bond yields.

According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018.

The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Government Initiatives

Government policy developments and financial performance in Ontario's electricity sector, including OPG, Hydro One and municipal electricity utilities, may affect borrowing requirements through the cash flows to OEFC. In particular, the Province's ongoing effort to broaden ownership of Hydro One will result in large cash flow impacts for OEFC.

The OFA will continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program. The OFA will lead the implementation of the Trillium Trust, for dedicated net revenue gains from qualifying asset sales to help fund infrastructure investments across Ontario. The OFA will also provide financial support to the Ministry of Environment and Climate Change in respect of the government's Cap and Trade program, as well as in the establishment of a Greenhouse Gas Reduction Account and a climate change agency.

The OFA will also provide financial analysis and advice in support of the Province's commitment to unlock the value of designated assets, and will continue to work with Infrastructure Ontario and other areas of government on optimizing certain holdings in the Province's real estate portfolio, in particular, the sale of OPG headquarter properties, as well as Seaton and Lakeview lands.

Regulatory Compliance

The OFA will ensure that information required to be disclosed by the Province in its debt securities offerings related documents, periodic published reports (including the Ontario Budget, the quarterly finances, the Public Accounts of the Province of Ontario and the annual fall Economic Outlook and Fiscal

Review) and other disclosures filed or submitted under applicable securities legislation, rules and regulations in the United States, the United Kingdom, Luxembourg, Australia, Switzerland and Singapore is filed on time and otherwise in accordance with those requirements. Regulatory requirements will be monitored continually to ensure the Province has ongoing access to these markets.

PERFORMANCE MEASURES

1. Execute the Province's borrowing program

Objective	Performance Measure	Target
a. Complete the borrowing program while ensuring that the Province always has adequate liquidity.	Sufficient liquidity on hand at all times to ensure the Province can meet its financial obligations. Ensure borrowing is completed with minimal negative impact on the Province's reputation in the financial markets.	Borrowing program completed and cash requirements met on a timely basis.
b. Manage the borrowing program in a sound and cost-effective manner.	The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	Achieve a percentile ranking of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by the Ontario Internal Audit Division.
c. Ontario Savings Bonds (OSB) Program	Fund borrowing requirements at cost-effective rates for a broadly based retail program which allows individual investors in Ontario to participate in providing funding to the Province. OSBs reduce other borrowing requirements which, in turn, reduces pressure on new issue spreads.	Ensure the program is cost-effective in the context of a retail borrowing program. Maintain and review Service Level Agreement between OFA and Fiscal Agent on an annual basis.

2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook

Objective	Performance Measure	Target
a. Manage outstanding debt in a sound and cost-effective manner.	Dollar savings of debt management transactions on a realized and mark-to-market basis. This methodology utilizes a risk-budgeting approach adopted by some large pension plan investment managers.	Achieve first quartile performance relative to a risk budget. Results are validated by the Ontario Internal Audit Division.
b. Preservation of capital on money market investments.	Credit losses on liquid reserves and investment portfolio of funds managed for other government bodies.	No credit losses on any investments. Generate actual returns that are within ± 2 basis points of the

Objective	Performance Measure	Target
Manage liquid reserves in a sound and cost-effective manner.	The investment return on the portion of liquid reserves invested in Government of Canada Treasury bills and similar riskless instruments compared to an average 61-day portfolio benchmark. This benchmarking process is consistent with private sector industry practice. Maintain liquid reserve levels within a pre-determined range and provide an explanation to the Board of any deviations from that range.	61-day benchmark portfolio. Results are validated by the Ontario Internal Audit Division.
c. With OPG, prudently manage the Used Fuel and Decommissioning Segregated Funds' investments.	Ensure investment management is consistent with ONFA objectives.	Manage, monitor, and analyze the performance of the funds and the performance of investment managers. Continue refinement of investment strategies, risk management, policies and procedures. Meet the real return objective of 3.25 per cent, and exceed the market benchmark over the life of the funds.
d. Prudently manage funds for government bodies through the centralized/ segregated fund initiative.	Reduce investment costs. Ensure public bodies' funds are managed consistently with investment industry best practices.	Establish and continue to efficiently manage segregated funds with government public bodies that meet client requirements.
e. Minimize financial risk by ensuring risk exposures and program losses remain within approved exposure and loss limits.	Foreign exchange exposure. Net interest rate resetting exposure. Interest on debt losses as a percent of budgeted interest on debt. Credit exposures relative to approved policy limits.	Foreign exchange exposure not to be above five per cent of total debt. The 2016–17 Financing, Debt and Electricity Management Plan had an approved range of 0 per cent to 2.5 per cent in Foreign Exchange Exposure. Currently, the exposure of 0.3 per cent of debt. The 2017–18 Financing, Debt and Electricity Management Plan will have a recommended range subject to Board of Directors approval later in the year. Net interest rate resetting exposure not to be above 35 per cent of total debt. The 2016–17

Objective	Performance Measure	Target
		Financing, Debt and Electricity Management Plan had an approved range of 10.4 per cent to 14.4 per cent in Ontario's Gross Floating Rate exposure, with a target of 12.4 per cent. Interest Rate Resetting Exposure is expected to be 11.2 per cent as of March 31, 2017, with an expected range of 9.2 per cent to 13.2 per cent. A new range and target for Floating Rate and Interest Rate Resetting Exposure will be approved in the 2017–18 Financing, Debt and Electricity Management Plan. IOD losses not to exceed three per cent of budgeted Interest on Debt. Credit exposures to be kept within approved policy limits.
f. Use risk control policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies are kept current with industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments and risk management reporting are to be reviewed annually, and amendments or decisions not to amend are to be approved by the Board of Directors. Review limits on net interest rate resetting, foreign exchange and credit exposures, and credit concentration. Calculate and report exposures daily. Perform monthly stress testing on the Province's market and credit exposures.
g. Measure and report performance of the Province's borrowing, debt management, and investment programs.	Timeliness and accuracy of performance measurement and reporting.	Report on borrowing and debt management performance daily, and on the money market program performance monthly.

Objective	Performance Measure	Target
h. Evaluate the potential impact of stressed capital market conditions on OFA programs and IOD.	Conduct stress tests of the credit exposures, and IOD, and report the results as described in the risk management policies.	Stress testing is performed and reported on a monthly basis as described in the risk management policies.
i. Forecast interest on debt (IOD) for the Province and the OEFC.	Forecasts for the current year and medium-term are provided for the Budget, Fall Statement and quarterly finances.	IOD forecasts for the current year and medium-term to be provided for the Budget, Fall Statement and quarterly finances in a timely manner.
j. Assess the credit quality of municipalities and other approved entities applying for Infrastructure Ontario loans and provide credit risk advice to the Credit Review Committee (CRC)	Review loan applications and analyze reports. Attend CRC meetings to provide advice and vote on each application.	Provide an advisory role at Infrastructure Ontario's CRC meetings.
k. Contribute to key ministry documents, including the Budget, Fall Statement, and quarterly finances; and advise on financial implications of government initiatives.	Advise on potential financial/treasury implications of government initiatives on IOD, borrowing objectives, credit ratings, and financial markets' reactions. Complete the Borrowing and Debt Management chapter, including the Financing Table, in the Budget and Fall Statement.	Ensure potential financial/treasury implications are considered in developing government financial objectives, including meeting the requirements of the <i>Fiscal Transparency and Accountability Act</i>. Provide the Borrowing and Debt Management chapter in the Budget and Fall Statement; and update Ontario's Financing Program in Ontario Finances (quarterly).

3. Manage key financial relationships

Objective	Performance Measure	Target
a. Manage Ontario's relationships with domestic and international investors.	Maintain dialogues with investors, investment dealers and the international investment community by providing timely financial updates, including investor publications and securities filing documents.	Continue to monitor fixed income markets, economic conditions, and investors' interests and requirements to ensure road shows are effective for both the Province and its investors. Investor Relations to continue to track meeting activity with investors. Program benchmarks to include number of meetings with new accounts, effectiveness of communications material and website usage. Provide IR information products, including updates to the OFA website, on a timely basis. Meet ongoing disclosure and regulatory filing requirements with the SEC, UKLA, LuxSE, ASX, SIX Exchange Regulation and the SGX. Provide panelists or speakers at domestic and international industry conferences.
b. Manage Ontario's relationships with the credit rating agencies.	Ensure that credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these in their reports and decisions.	Following the release of the Budget, senior OFA and Ministry of Finance staff will meet with the rating agencies. Throughout the year, agencies will be kept informed of the government's ongoing economic and fiscal progress.
c. Manage Ontario's relationships with banks, financial services providers, and investment dealers.	Maintain relationships with banks, financial services providers, and investment dealers who provide the Province with banking, underwriting, custodial and fiscal agency services, thereby maintaining the Province's reputation and supporting its strategic direction to provide financial and cash management services. Maintain relationships with swap counterparties.	Ensure banking, underwriting, custodial and fiscal agency services provided to the OFA are cost-effective with minimal impact on IOD. Promote Toronto as a global financial centre. Ensure compliance with existing collateralized swap agreements in a timely and accurate manner on a daily basis. The OFA will endeavour to enter into collateralized swap agreements with more swap counterparties to limit credit risk.

4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services.

Objective	Performance Measure	Target
a. Arrange OPS-wide cost-effective banking services that minimize the Province's expenditures.	Acquire cost-effective banking products and services to support government ministries' program delivery, Crown agencies' banking activities and OFA's debt and investment management activities through the government's tendering process.	Issue, award and implement tenders for banking and financial services to ensure service continuity and program area needs are met. Monitor vendors' post-implementation performance. Work with central agencies, ministry program areas, and financial service providers to increase take up of existing electronic payment mechanisms and identify industry trends and new banking technology, which can be leveraged to reduce costs and improve service delivery and back-office processes. Ensure continued compliance with mandatory requirements imposed by external parties such as Federal bodies and industry groups. Participate in government and industry working groups/task forces on developing innovative solutions to enhance banking and payment efficiencies. Provide comprehensive and timely banking advice to program areas and agencies supporting government initiatives.
b. Provide centralized cash management services that maximize liquid reserves returns.	Ensure the provision of timely and accurate cash information for the development of the Financing Table in the Annual Budget and Fall Economic Statements. High service standards on service contracts with client agencies to maintain client satisfaction.	Provide actual and forecast liquid reserve numbers for the Financing Table in the Province's Quarterly Statements and Annual Budget that stand up to scrutiny by internal and external stakeholders. Ensure relevant performance measures in client agency agreements are met or exceeded.

Objective	Performance Measure	Target
c. Timely and accurate forecasts to align borrowing with cash management requirements, helping to reduce IOD.	Reliable and accurate cash forecasts for the Province and client agencies.	Ensure that the Province has sufficient cash available at all times to meet its financial obligations. Continually enhance the Cash Management System, keeping it responsive to changing needs, technology, and the IT environment within the OPS, i.e. IFIS renewal and Hyperion.
d. Advocacy of best practices in cash management across the OPS	Policy advice where required to assist programs in complying with the Cash Management Directive.	Improved compliance with the Cash Management Directive; implementation of policies more in line with best practices.
e. Provide efficient, accurate and timely settlement and payment processes, and implement appropriate settlements industry best practices.	Ensure debt management, investments, derivatives, and loans are recorded and processed efficiently and accurately. Ensure that ITS, the OFA's system of record for debt, derivatives, and assets, continues to operate effectively. Adoption of industry best practices.	Make system and procedural enhancements to improve the efficiency and effectiveness of settlements' functions, and continue to mitigate operational risk. Replace the Public Bodies Financing System with a user friendly and efficient system that is either developed internally or sourced externally.
f. Provide timely and accurate financial reporting for the Province in relation to debt, derivatives and investments, and the agency financial statements.	Ensure security and proper records of transactions. Provide high quality financial information for publication in a timely and accurate manner.	Enhance internal controls on accounting records by applying best practices and staff training. Prepare internal reporting to ensure data integrity. Through research and continuous review, ensure that accounting records and financial reporting are prepared in accordance with applicable PSAB requirements. Provide timely and accurate information for the Province's Budget, Estimates, quarterly Finances and Public Accounts. Provide timely and accurate agency financial statements that pass the scrutiny of the OFA Board and its Audit and Risk Management Committee as well as the Office of the Provincial Auditor General.

Objective	Performance Measure	Target
g. Monitor and assess accounting developments that affect the financial reporting for the Province and its agencies.	Keep abreast of current accounting developments in various jurisdictions: the International Accounting Standards Board (IASB), the Financial Accounting Standards Board in the U.S. (FASB), and the Accounting Standards Board and the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.	Continue to monitor developments in accounting standards set by PSAB and other standard setting bodies that may affect the Province and agency reporting. Provide advice to the Office of the Provincial Controller, on developments in accounting standards that impact debt and related areas. In coordination with other provinces, actively bring the collective concerns of Ontario and the other provinces on the Financial Instruments standard to PSAB. Continue to liaise effectively with the Office of the Provincial Controller and the Office of the Auditor General of Ontario in making recommendations and/or responses on PSAB's review of these standards.

5. Advise on and implement corporate and electricity finance projects and policies

Objective	Performance Measure	Target
a. Provide financial analysis and advice on financing and other proposals that have capital markets implications. Develop the structure and negotiate the detailed terms and conditions of any transactions to minimize costs and best meet market expectations.	Cost-effective leasing policies and structures. Appropriate due diligence on financing aspects of asset management projects. Comprehensive advice on structuring and completing financial transactions. Accurate determination of value for money benchmarks and evaluating and recommending interest rates.	Comprehensive, timely and accurate advice to support objectives. OFA to be viewed across the government as a centre of excellence in financial analysis and providing high quality financial advice.
b. Provide financial analysis and advice on cost-effective borrowing, investing, and risk management by public bodies. Negotiate the detailed terms and conditions of any loans to be guaranteed to minimize costs and	Borrowing and investing through financial markets as cost-effectively as possible and within appropriate risk management frameworks for each client.	Comprehensive, timely and accurate advice to consolidated public bodies.

Objective	Performance Measure	Target
best meet market expectations.		
c. Provide financial analysis and advice on transactions requiring a provincial guarantee or that may otherwise increase the indebtedness or contingent liabilities of Ontario.	Comprehensive, accurate and timely review and identification of risks and potential risk mitigation strategies.	Comprehensive, timely and accurate advice as required.
d. Provide analysis and advice on electricity policies and initiatives that have potential financial, fiscal, and/or economic implications on the Province and/or OEFC.	Early identification and development of options to effectively deal with opportunities, pressures and/or risks to the Province or OEFC.	Comprehensive, timely and accurate analysis and advice, as required, including on the following: • Electricity supply, conservation, transmission, distribution and other electricity price mitigation initiatives. • Nuclear supply, including nuclear refurbishments. • Ongoing implementation of the ALGP. • Ongoing implementation of IEI program, ICI, NIER program, and the OREC.
e. Analysis and modelling to support the OEFC's objectives, including monitoring of OPG and Hydro One results.	Concise, accurate and timely reports and briefings as required.	Provide analytical and modelling support, as required, for the OEFC annual audit and reporting process. Continue regular financial update meetings with OPG to monitor financial performance. Provide required analysis to support management of NUG contracts (e.g., contract/rate negotiations, and NUG litigation.)
f. Provide electricity sector projections for the Province and the OEFC.	Ensure projections are provided in a timely manner, using best available information and reasonable assumptions.	Provide projections for the current year and medium-term for the Province's Budget, Fall Statement and quarterly finances; as well as projections for OEFC on an annual and quarterly basis. Provide regular updates on projections versus plan.

Objective	Performance Measure	Target
g. Analysis and advice to support the effective administration of ONFA, including approving annual budgets, monitoring fund balances, managing the Provincial Guarantee provided to the Canadian Nuclear Safety Commission (CNSC), and monitoring policies and other initiatives related to nuclear liabilities.	Comprehensive and appropriate due diligence performed on annual budgets, reference plans, disbursements and financial documents.	Review and approve annual budgets, including investment related expenses, change requests, and disbursements as per ONFA timelines. Ensure budgets are consistent with approved reference plans and only eligible costs are funded. Ensure fund flows follow ONFA requirements through audits and review of financial documents. Review and monitor plans and projects related to managing nuclear liabilities for decommissioning and waste management. Monitor and review the ONFA Reference Plan and the required level of the Provincial Guarantee to the CNSC as nuclear liability estimates are revised and as segregated funds change in value. Provide analysis and advice on OPG's contribution schedules and the Provincial Guarantee that is provided under ONFA to the CNSC.
h. Provide advice, as required, on evaluating the Province's assets, including investments in its business enterprises and analysis and advice on optimisation to enhance efficiency and maximize value.	Ensure required analysis, advice, and briefings are comprehensive, timely and accurate.	Provide timely and highly reliable financial advisory services as required, including modeling, option development, and the identification of key considerations to support OFA, Ministry of Finance and Provincial decision-making. Provide financial analysis and advice related to the Province's holdings of Hydro One shares and the sale/merger of Hydro One Brampton. Provide analysis and advice related to optimizing the Province's real estate portfolio, in particular the sale of OPG headquarters properties, Seaton and Lakeview lands.

Objective	Performance Measure	Target
i. Provide financial analysis and advice on corporate issues and initiatives	Ensure required analysis, advice, and briefings are accurate, timely, and comprehensive.	Provide expert financial analysis and advice as required, including modeling proposals and structuring transactions. OFA CEO, or delegate, participation and leadership on Boards and Committees overseeing these initiatives.

6. Ensure the successful activation of OFA's decentralized Business Continuity Plan

Objective	Performance Measure	Target
a. Review and update the Corporate BCP framework and business unit plans.	Business units being able to successfully complete their identified critical time-sensitive tasks from decentralized locations.	Maintain staff awareness and readiness to implement the Corporate and business units' plans to meet business requirements in the event of a business disruption. Conduct and assess periodic BCP tests.

HUMAN RESOURCES

Staff allocation for 2016–17 is 166 positions, or full-time equivalents (FTEs), excluding leaves of absences. Between 2007–08 and 2016–17, the borrowing program is projected to increase by 32 per cent, from \$18.0 billion to \$23.8 billion, and the Province's net debt is projected to increase by 103 per cent, from \$156.6 billion to \$317.9 billion. The OFA's operating costs (forecasted) increased by 20 per cent, from \$22.5 million to \$27.1 million, and FTEs dropped by three per cent, from 172 to 166.

The OFA continually reviews its recruitment and retention strategies to ensure it is able to attract and retain qualified staff. Some of the initiatives that have been implemented include supporting flexible work arrangements, and implementing diversity, inclusion and accessibility strategies. Approximately 85 per cent of the OFA is on the government compensation plan, which is controlled centrally. All but five positions are excluded from collective bargaining.

The OFA will continue to work with the Human Resources and Governance Committee of the OFA Board and the Ministry of Finance Human Resources Branch to develop further initiatives to promote staff retention and skills development. The OFA will also continue to work with the OPS Recruitment Centre to enhance the OFA's ability to attract qualified candidates. This will ensure the OFA can meet its current and future business priorities. Initiatives may include providing opportunities for staff to participate in learning and development courses, job shadowing, secondments, and special projects to the extent feasible to enable continuous learning and enhance succession planning.

FINANCIAL BUDGET

OFA Multi-Year Operating Expenditure Forecast

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Salaries	19,055	19,055	19,876	20,273	20,679
Benefits	2,195	2,195	2,299	2,345	2,392
ODOE	5,802	5,802	5,352	5,412	5,513
Sub-total Cash DOE	27,052	27,052	27,527	28,030	28,584
Add: Amortization	881	863	789	764	786
Less: Capital Expenditure	(865)	(865)	(817)	(785)	(795)
Direct Operating Expense	27,068	27,050	27,499	28,009	28,575

Staffing levels are forecast to remain at 166 positions (FTE basis) over the planning horizon.

The tables and financial statements included in this document have been prepared on an accrual basis of accounting to correspond with the OFA Financial Statements.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

OFA - Income Statement Projections

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Revenue					
Interest Revenue	3,003	3,067	3,305	2,847	2,715
Cost Recovery from the Province	22,207	22,206	22,640	23,034	23,485
Cost Recovery from agencies /related parties	4,861	4,844	4,859	4,975	5,090
Total	30,071	30,117	30,804	30,856	31,290
Expenditure					
Operating Expense	27,068	27,050	27,499	28,009	28,575
Total	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

STRATEGIC CORPORATE SERVICES

Strategic Corporate Services Division (SCSD) is accountable for delivering robust Information Technology, Strategic Human Resources Management, Records and Information Management, Procurement and Policy Management, Facilities Management and Physical and Cyber Security Services. Enhancements to each of these areas drives efficiency, auditability and consistency throughout the organization. SCSD ensures the OFA's and OEFC's core business objectives are supported by reliable, dedicated, customized and integrated technology infrastructure, business applications, administrative process and access to external real-time data sources.

A major focus of SCSD is to support the OFA's core operational business processes. By actively assessing and adjusting the underlying functions that enable the day-to-day business needs, SCSD is able to provide streamlined solutions that increase the safety and wellbeing of the staff, further the OPS Diversity and Inclusion commitments, and provide transparency into procurement and human resource activities.

In addition, reliable and secure information technology is essential to the OFA's ability to deliver its mandate. To that end, SCSD strives to ensure that business applications and related services are not down more than four times a year for a period greater than 30 minutes for each occurrence during normal business hours. The OFA's financial business functions are powerfully supported by SCSD's technology infrastructure, providing availability, integrity, security, and capacity via high-performance, highly-redundant systems at a competitive cost. SCSD can effectively deliver and maintain state-of-the-art financial systems and services because of OFA's internal management of information technology.

The following initiatives will be carried out over the next three years to support the OFA's strategic direction and objectives:

Initiative	Duration	Contribution to key OFA activities
Automate and enhance structured, processes across the organization such as Asset and Inventory Management.	2017–18	Address the organization's increased focus on procurement practices.
Increase the effective management and delivery of IT projects through centralized, standardized processes and controls.	2017–18	Continue to enhance delivery and effectiveness of resources in project management efforts. Support OFA objectives in the delivery of technical initiatives.
Expand core systems to track new government initiatives, allow for greater flexibility in hedge portfolio group splitting, strengthen bond and swap pricing modules and Implement applicable changes as per financial and regulatory reform requirements.	2017–19	Support a large borrowing program and the corresponding large volume of associated hedging activity; provide flexibility to support the commodities hedging program conducted by the OFA for Metrolinx; and the continuation of new government initiatives, including Ontario Green Bonds, and the Trillium Trust.
Through iterative enhancements to technology and policy, ensure the security of information assets and infrastructure across multiple platforms.	2017–19	Address increased requirements for integrated communication solutions as well as data anytime, anywhere. Enhance support for the OFA's BCP.

Creating and enhancing OFA business dashboards to gain increased insight and enhance trading and portfolio management information.	2017–19	Provide OFA executives with timely information to support treasury and borrowing program activities.
Creating and enhancing KPIs and dashboards, reporting mechanisms to measure the performance of delivered corporate services.	2017–19	Provide OFA executives with timely information to support business activities.
Continuous IT infrastructure improvement that will enhance performance, increase capacity, and make the OFA's computing solution highly available.	2017–19	The OFA's financial business functions are well supported by its robust IT infrastructure, which is essential for the OFA to carry out its mandate.
Continuous IT security improvement that will ensure the integrity of the OFA's IT network and prevent any unintended data loss or unauthorized access. Review, revise, and develop IT policies and procedures based on emerging business or technology requirements.	2017–19	The OFA is proactive in ensuring that its systems are highly secure.
Continuous IT service delivery enhancement that will improve the process of incident management, change management, and problem management. Implement SCSD Service Catalogue and Configuration Management Database (CMDB).	2017–19	The OFA's financial business functions are well supported by various IT Services. A better service delivery framework is essential to deliver IT Services professionally and on a timely basis.
Streamline procurement through a centralized, process-driven methodology.	2017–20	Provides clear accountability, auditability and transparency.
Implementation of an Information Management Strategy that transitions the treatment of information from 'data' to an 'asset'.	2017–20	Promotes the retention of corporate knowledge within the organization.
Continuous Enterprise Project and Portfolio Management that will improve the ability to track, report and deliver on business and technology initiatives.	2017–19	Provides clear accountability, auditability and transparency.

INITIATIVES INVOLVING THIRD PARTIES

There are no third parties, other than the provincial government, with which the OFA is partnering or with which it has a funding relationship for the purpose of delivering OFA programs. Moreover, the OFA does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

IMPLEMENTATION PLAN

For 2017–20, the OFA intends to implement its business plan using existing resources and allocations.

COMMUNICATION PLAN

Business Plan

The OFA Business Plan serves as an internal tool for management and staff in the development of program plans and, through the regular reporting of the status of initiatives to the Board of Directors, it serves as a performance measurement tool. The plan also communicates the OFA's business objectives to the Minister of Finance and the Ministry.

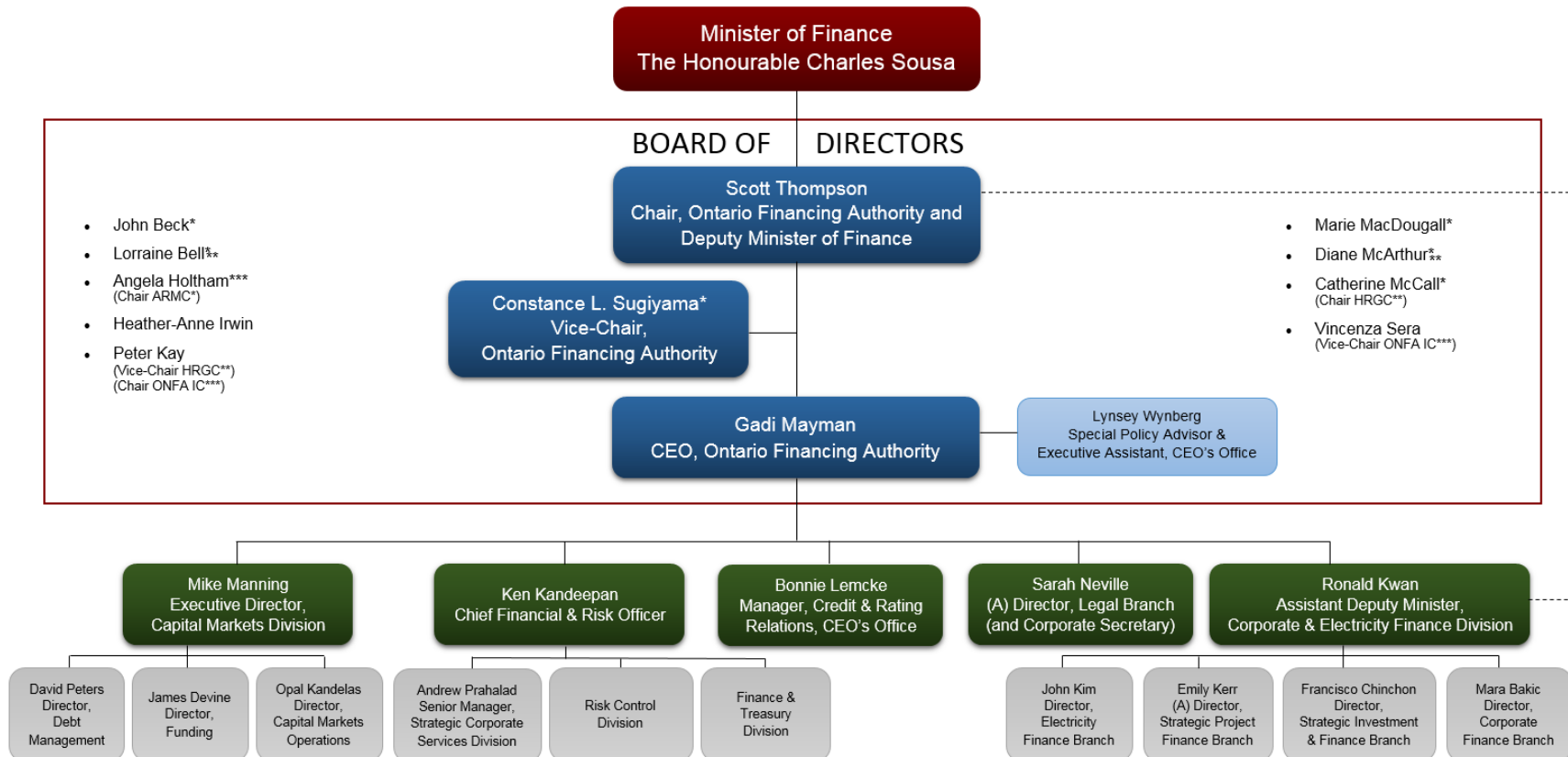
Other Communications

The OFA has a number of external stakeholders, including institutional and retail investors, investment dealers, banks, and credit rating agencies. In 2017–20, the OFA will communicate with stakeholders using various methods including:

1. Websites (including expense information): www.ofina.on.ca; www.ontariosavingsbonds.com; www.ofina.on.ca/algp;
2. Budget and quarterly updates: develop borrowing and debt management components;
3. Fact sheets, investor relations presentations, and other investor material (available on the website);
4. Annual Report (as required by the *Capital Investment Plan Act, 1993*);
5. Regulatory filings;
6. Business Plan; and
7. Memorandum of Understanding (MOU).

Other methods of communication to be used throughout the year are investor relations meetings and regular discussions with credit rating agencies. In addition, the OFA is responsible for the development of communications vehicles for OEFC and will continue to maintain the OEFC website, www.oefc.on.ca, and to produce the OEFC annual report.

ORGANIZATIONAL CHART



* ARMC = Audit & Risk Management Committee

** HRGC = Human Resources & Governance Committee

*** ONFA IC = Ontario Nuclear Funds Agreement Investment Committee

From: [Christina Zhang](#)
To: [Alena Ingram \(MOF\)](#)
Cc: [Cho Khong \(MOF\)](#); [Cheryl Frost \(MOF\)](#); [Bridget Jeanes \(MGS\)](#)
Subject: RE: OFA and OEFC business plans
Date: Monday, February 27, 2017 5:02:00 PM
Attachments: [2017-20 OFA Business Plan.pdf](#)
[20170227170153956.pdf](#)

Hi Alena,

Please find attached the approvals package containing the 2017-20 OFA Business Plan. The attached business plan was approved by the OFA Board of Directors on February 10th.

I'll put the hard copy into interoffice mail, addressed to your attention.

Regards,
Christina

From: Ingram, Alena (MOF) [mailto:Alena.Ingram@ontario.ca]
Sent: Monday, February 27, 2017 1:56 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Cho Khong (MOF) <Cho.Khong@ontario.ca>; Cheryl Frost (MOF) <Cheryl.Frost@ontario.ca>
Subject: OFA and OEFC business plans

Christina and Gavin,

Could you please confirm that we will be receiving final 2017-18 business plans for OFA and OEFC by the March 1 deadline?

If there are any issues, please let me know. Thanks.

Alena

Alena Ingram
Senior Program Analyst
Corporate Planning & Finance Branch, Ministry of Finance
905-436-4469
Alena.Ingram@Ontario.ca



2017–20 Business Plan

Approved by the Board of Directors

February 10, 2017

Date

Approved by the Minister of Finance

Signature

Date

The Honourable Charles Sousa
Minister of Finance

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EXECUTIVE SUMMARY

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). The initiatives in the OFA's 2017–20 Business Plan will focus on achieving the objectives set out in CIPA and the objectives set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016 over a three year planning horizon, as well as reporting on results of the previous year's Business Plan. Initiatives for the 2017–20 Plan include:

1. Executing the Province's borrowing program through development and implementation of the annual Financing, Debt & Electricity Management Plan. The Plan will provide critical details on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
2. Managing the Province's debt, investments, Ontario Nuclear Funds Agreement (ONFA) and financial risk, and contributing to the development of the Province's fiscal plan and outlook by working to generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds for various public bodies. This also involves managing ONFA-related investments, working together with Ontario Power Generation Inc. (OPG), to ensure interest rate, foreign exchange and credit exposures are within approved policy limits, as well as contributing to the Province's annual Budget, Fall Statement and quarterly finances.
3. Managing key financial relationships by building and maintaining connections with investors in both existing and new markets, as well as relationships with banks, financial service providers and investment dealers. This includes providing Investor Relations information products and updates on the OFA website. Maintaining close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives, and complete regulatory filings with the U.S. Securities & Exchange Commission (SEC) and any other applicable securities regulators.
4. Providing cash management and banking services on a centralized basis to all ministries and settlement, payment, financial and reporting, loan administration, information technology and client services to the Treasury Program by implementing effective treasury solutions for the Province and client agencies. Ensuring that the Province has sufficient cash available at all times to meet its financial obligations, and continuing to work with the other ministries to advise on banking and cash management components of government initiatives as well as on changes to accounting standards and their impact on the Province's debt and interest on debt.
5. Advising on and implementing corporate and electricity finance projects and policies by providing analysis and advice on cost-effective borrowing, investing and risk management by public bodies and other financing proposals, and on business cases for business supports. This includes providing advice on transactions that may affect the indebtedness or contingent liabilities of Ontario, including provincial guarantees. In addition, undertaking policy and financial analysis, modelling support and implementation, as required, for electricity financings, policies and initiatives, including ONFA, which could have fiscal, financial and/or economic implications for the Province and/or Ontario Electricity Financial Corporation (OEFC).
6. Ensuring the successful activation of OFA's decentralized Business Continuity Plan (BCP) by reviewing and updating the Corporate BCP Framework and Business Unit plans, as well as conducting corporate-wide BCP test exercises.

OVERVIEW OF 2016–17 RESULTS (TO DATE)

The Ontario Financing Authority (OFA) accomplished the following in support of the overall strategic directions outlined in the 2016–19 Business Plan¹:

1. *Execute the Province's borrowing program*

- As of January 31, 2017, the OFA had completed \$20.3 billion (85 per cent) of its \$23.8 billion (as per the 2016 Fall Economic Statement) long-term borrowing requirement for 2016–17. Approximately 82 per cent of long-term borrowing was completed in the Canadian dollar market.
- The 2016–17 Ontario Savings Bond (OSB) campaign raised \$127 million.
- The objectives set out in the 2016–17 Financing, Debt & Electricity Management Plan, approved by the OFA Board, are on track and expected to be successfully completed by fiscal year end.
- Sufficient liquidity has been available over the fiscal year to ensure the Province has been able to meet all of its financial commitments and payment obligations, largely reflecting the long-term borrowing program being consistently ahead of pace.
- Successfully executed five carve-out deals² to-date for the 2016–17 fiscal year (as of January 31, 2017). Held in-depth discussions with individual carve-out investors.
- On January 26, 2017, the Province successfully priced an \$800 million re-opening of its January 2023 Global Green Bond. The six year bond will help fund twelve green infrastructure projects, with an emphasis on clean transportation and energy efficiency and conservation. The transaction represents the third and largest ever Green Bond offering from the Province of Ontario.
- Provided expertise in accounting for Green Bonds, and set up financial accounting and reporting for these investment vehicles that met the requirements outlined by the investor community. Developed and released a second Green Bond newsletter on December 12, 2016, updating investors on the second Green Bond's use of proceeds, project selection process, as well as, providing project updates on the eight projects selected.
- Analyzed the scope and impact of the Markets in Financial Instruments Directive (MiFID) II and the Bank Recovery and Resolution Directive (BRRD) on the Province and implemented required documentation changes to ensure the Province's continued, uninterrupted access to European capital markets.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

- As of January 24, 2017, through the timing of debt issues and related hedging, the cost of regular borrowing for the Province based on the traditional methodology translated to a percentile ranking of 58th percentile against a statistical distribution of benchmark interest rates. As such the percentile ranking for regular borrowings is outside the designated target band of 45 to 55 percentile. The OFA has introduced a more accurate and comprehensive performance measurement methodology based on the tenor of individual debt issues. Applying this methodology, the cost of regular borrowing for the Province for the same date translated to a percentile ranking of 53rd percentile, falling within the target band of 45 to 55 percentile. The cost of strategic foreign borrowing as of January 24, 2017 translated into a percentile ranking of 54th percentile falling within the designated target band for strategic foreign borrowings of 50 to 75 percentile. The new methodology is yet to be extended to cover strategic foreign borrowings. There were no borrowings on behalf of OEFC.

¹ The OFA's fiscal year end is March 31, 2017, but quantitative performance results are as of December 31, 2016, unless otherwise noted.

² In order to accommodate large bond purchases by a single buyer, a large order procedure was implemented on October 14, 2011. The "carve-out" procedure allows for a portion of a bond issue to be sold to a single buyer.

- The money market performance was \$ \$21.6 million or thirteen basis points (bps) better than the benchmark as of December 31, 2016. The performance is eleven bps better than the upper limit of the target band which is plus or minus two bps of the benchmark.
 - The interest-on-debt (IOD) expense for 2016–17 is currently forecast at \$11,375 million, \$381 million lower than forecast in the *2016 Budget*, primarily as a result of lower than forecast interest rates.
 - Funds were managed on a discretionary basis on behalf of the Pension Benefits Guarantee Fund, Deposit Insurance Corporation of Ontario, Ontario Trillium Foundation, Infrastructure Ontario, and a commitment fund for the Ontario Capital Growth Corporation.
 - Funds were managed on a non-discretionary basis on behalf of the Ontario Immigrant Investor Corporation and Northern Ontario Heritage Fund.
 - With OPG, the Used Fuel and Decommissioning Segregated Funds' investments were managed under ONFA. The Funds have grown from \$16.9 billion at January 1, 2015 to about \$19.2 billion at September 30, 2016. As of November 30, 2016, the rate of return for the Used Fuel Fund for one year was 6.88 per cent compared to the market benchmark of 6.89 per cent and a target rate of return of 5.04 per cent. The rate of return for the Decommissioning Fund for one year was 6.79 per cent compared to the market benchmark of 7.07 per cent and a target rate of return of 5.15 per cent.
 - Contributed to the Province's annual Budget and quarterly finances, including the electricity sector outlook and assets; advised on the potential implications of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions.
 - As part of the Pooled Asset Management Working Group, provided technical investment management expertise on the modelling, design and implementation of a pooled asset management entity for institutions in Ontario's broader public sector. In February 2015, a final report was presented to the Minister of Finance. The OFA has continued to assist the Ministry of Finance (MOF) in implementing the Investment Management Corporation of Ontario (IMCO).
 - Administered borrowing authority obtained under the *Financial Administration Act* (FAA) which is required to carry out the Province's borrowing program. Effected changes to the FAA to better align the foreign currency conversion of debt maturities to be refinanced with the methodology used in calculating the Province's annual borrowing requirement.
3. *Manage key financial relationships*
- Held road shows, investor meetings and conference calls to meet with investors in Canada, the United States, Europe and Asia, and hosted meetings at the OFA offices. Held 139 investor meetings and events as of December 31, 2016, including meetings with 10 new accounts. Provided keynote speakers and panelists at industry conferences in Toronto and New York City. Promoted Toronto as a global financial centre.
 - Continued development of the OFA website to improve functionality, add additional information for investors and provide full mobile accessibility. As part of Ontario's *Open Data Directive*, the OFA published an Open Data Inventory List on its website, which includes all of the datasets the OFA creates, collects and/or manages. The website continues to be an important tool for communicating with investors and the public, receiving 34,792 visitors during the 2016 calendar year. Three CEO's Corner updates were posted over this time. The OFA email alert list had 363 subscribers as of December 31, 2016.
 - Maintained close relationships and held ongoing discussions with credit rating agencies and the banks which underwrite and distribute the Province's bonds in Canada and around the world to keep them apprised of government priorities and initiatives, the *2016 Budget*, the 2015–2016 Public Accounts, the *2016 Ontario Economic Outlook and Fiscal Review* (Fall Statement), the secondary offering of Hydro One upon its public announcement and other quarterly finance releases.
 - Managed increasingly more rigorous regulatory and disclosure requirements, and maintained close relationships with the regulatory bodies in the global capital markets.
 - Monitored credit exposures to banks with which the OFA has relationships. Executed 10 collateralized swap agreements with bank counterparties and are working toward executing additional agreements in order to mitigate credit risk with bank counterparties.

- Conducted comprehensive reviews of potential rule changes affecting the Province domestically and internationally such as the Market Abuse Directive (MAR) in the European Economic Area (EEA) and fee-based changes with Canada's primary central securities depository (CDS), consulting securities regulators and other capital market participants, as appropriate.
 - Monitored and fully complied with international withholding tax requirements in respect of its financial agreements under FATCA and OECD Common Reporting Standard for Entity Tax Residency.
4. *Provide cash management and banking services as well as settlement, payment services, loan administration and financial and reporting services and client services*
- Provided centralized banking services to the Province by strategically managing banking relationships, as well as providing efficient centralized cash management services to the Province, minimizing interest on debt.
 - Continued to provide cash management services to five client agencies and crown corporations, including the Pension Benefits Guarantee Fund, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario.
 - Managed the complex cash flows and settlement requirements associated with the secondary offering of Hydro One ensuring that these very large and time sensitive transactions were completed on a timely and accurate basis.
 - Continued to advise ministries on the application of the Cash Management Directive with regard to Government priorities including the proposed cap and trade mechanism for Ontario.
 - Continued strategic participation and advice to the cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Coordination Office to assist ministries in maintaining compliance with mandatory security requirements for debit/credit card acceptance.
 - After concluding a successful pilot, continued to work with the Ministry of Community and Social Services to replace social benefits payments made by cheque with a reloadable prepaid card product for all unbanked individuals providing both cost efficiencies, and improved services to Ontarians.
 - Provided analysis and advice to Ministry of the Environment and Climate Change (MOECC) on the structuring of the Province's proposed Cap and Trade auction program, which will be linked with those of California and Quebec, to ensure its sound financial management and protection of the Province's interests.
 - Provided advice to MOECC regarding the selection and management of a Financial Services Administrator to support the auction process, and control structure for the auction-related financial services and receipt of public money aspects.
 - Provided advice to the Ministry of Government and Consumer Services (MGCS) on their procurement of corporate purchasing / travel cards as well as analysis of related *Financial Administration Act* considerations.
 - Provided analysis and advice to ministries on payment options for new programs and program changes e.g. Ministry of Transportation Drive Clean program collections via Pre-Authorized Debit, Ministry of Advanced Education and Skills Development online collection of childcare license fees, and online Program Approval and Registration Information System.
 - Based on an in-depth risk and efficiency analysis the Province determined to no longer accept American Express cards as a payment mechanism. The decision generated savings through the elimination of a parallel infrastructure as well as reduced risk by streamlining PCI data security requirements.
 - Working closely with MOF to develop an e-services strategy for tax collection.
 - Continue to engage with provincial and federal counterparts on treasury and cash management program issues throughout the year.
 - Continued to provide timely and efficient settlement and payment services in managing the Provincial and OEFC debt portfolios and Non-Utility Generator (NUG) power purchase contracts.
 - Continued to work with MOF, MGCS and Treasury Board Secretariat (TBS) in advancing the OFA initiative to move pension plan assets that are currently part of the Consolidated Revenue Fund into

more appropriate asset management structures that have the potential to release up to \$50 million in annualized savings.

- The Integrity Commissioner has graduated the OFA from having to submit the travel expenses of the Board, the CEO and his direct reports and the top five employees in a fiscal year, for review by his office. The graduation is a testament to the timeliness and accuracy exhibited by the OFA in providing this information to the Office of the Commissioner over the past few years.
 - As next steps in providing feedback to the Public Sector Accounting Board (PSAB) with regards to its new standard on Financial Instruments, the OFA has retained Deloitte Inc. to consult with other provinces and provide feedback to PSAB on provincial concerns with the proposed standard.
 - Continued to provide accurate agency financial statements, as well as reported provincial debt, derivatives and investments in accordance with strict legislated timelines. As in past years, the OFA's 2015–16 Financial Statements received an unqualified opinion from the Office of the Auditor General. The Auditor General's annual review of the OFA's financial reporting of the Province's debt and interest on debt presented in the 2015–16 Public Accounts continued to be free of material issues.
 - Renewed and administered long and short term credit facilities between the Province and Ontario Infrastructure and Land Corporation ("OILC").
5. *Advise on and implement corporate and electricity finance projects and policies*
- Advised on capital projects and financing options for ministries and public sector entities.
 - Continued the review of business cases for OFA borrowing requests from public bodies including a number of Ontario colleges, school boards and corporations, expected to result in a total of \$400 million in new long-term loans. Loan program annual savings are estimated to be at least \$30 million per year for a total of approximately \$230 million in cumulative savings to date.
 - Continued to provide advice on municipal debt issuance and investment activities, including the expansion of the Prudent Investor standard to other large municipalities and on the Ministry of Municipal Affairs and Housing new municipal revenue tools strategy.
 - Monitored terms and conditions of loans and loan guarantees and reviewed proposals and provided advice to the Deputy Minister and the Minister on proposed options to amend the loan guarantees and associated loan and contracts.
 - Provided analysis and advice on the Province's investment in the Ontario Venture Capital Fund, the Northleaf Venture Catalyst Fund, Ontario Emerging Technologies Fund and the ScaleUp Ventures Fund. The CEO serves on the Board of Directors, and is a Vice-Chair of, the Ontario Capital Growth Corporation (OCGC), which manages the Province's interests in these four funds.
 - Advised on and reviewed proposed contingent liabilities and indemnity agreements put forward by ministries and public bodies that would increase the indebtedness of the Province, including contingent liabilities and indemnities for major infrastructure projects, accommodation leases or broader public sector borrowing.
 - Provided analysis and advice to the MOECC on the design of the Province's cap and trade auction program as well as the procurement of a financial services provider to the WCI Inc. to provide administrative support to that program.
 - Provided analysis and advice to the MOECC on the establishment of a new climate change agency tasked with the implementation of the ministry's carbon reduction programs.
 - Providing analysis and advice on the application of Section 28 of the *Financial Administration Act* to contracts entered into by public entities that would increase the indebtedness or contingent liabilities of the Province.
 - Led the development of a new protocol for the sharing of powers and responsibilities under Section 28 of the *Financial Administration Act* between the Minister of Finance and the President of Treasury Board.
 - Provided advice to the Ministry of Research, Innovation and Science (MRIS) on private sector refinancing of the MRIS-MaRS Phase 2 loan.

- Provided advice to ministries, Crown agencies and other public entities on loan structuring and credit enhancement strategies.
- Provided advice to the MOF's Office of Economic Policy regarding the Bank of Canada's proposal to extend an Emergency Lending Facility to all provincial credit unions.
- Provided analysis and advice in support of the Ministry of Energy moving forward with secondary offerings of Hydro One shares including, in 2016-17, the secondary offering executed in April 2016.
- Provided advice alongside MOF to help facilitate discussion and progress regarding the agreement-in-principle with First Nations – in support of broadening the ownership of Hydro One by the Province.
- Through a working group, working with Infrastructure Ontario and other areas of government, provided analysis and advice in support of unlocking the value of the Province's real estate assets, including the sale of the LCBO's head office lands in June 2016, and the sales process for OPG headquarters properties.
- Provided policy analysis and advice on the implementation of the Trillium Trust, and proposed framework for making disbursements from the Trillium Trust to receiving ministries in support of public infrastructure investments.
- Provided financial analysis and advice on continuous management and implementation of the commercial agreement with Borealis/Teranet for the electronic land registry system.
- CEO served on the Assistant Deputy Ministers' review committee of the Jobs and Prosperity Fund.
- Provided analysis, advice, and the fiscal impact of the electricity sector and asset optimization initiatives for the Province's annual Budget, Fall Statement, Public Accounts and quarterly finances.
- Supported electricity policies and initiatives, focusing on potential fiscal, financial, and economic impacts on the Province and OEFC, including analysis and advice to support implementation and expansion of the Industrial Electricity Incentive (IEI); expanding the Industrial Conservation Initiative (ICI); ongoing implementation of the Northern Industrial Electricity Rate (NIER) program and its review process, the rebate for residential, small business and farm electricity bills of an amount equal to the eight per cent provincial portion of the Harmonized Sales Tax (HST) or the Ontario Rebate for Electricity Consumers (OREC); and providing analysis and advice on the stranded debt of the electricity sector.
- Provided analysis and advice on proposed new loans facilities and continued to implement new and existing loan agreements between OEFC and OPG related to supply projects and refinancing debt maturities.
- Renewed and continued to implement a credit facility between OFA and the Independent Electricity System Operator (IESO) for liquidity purposes and also provided analysis and advice to ensure financial oversight / governance of these credit facilities following the merger of the OPA and IESO.
- Continued to implement the Aboriginal Loan Guarantee Program (ALGP) to facilitate Aboriginal equity participation in renewable energy and transmission projects. As of December 31, 2016, eight guarantees totalling almost \$240 million have been approved under the ALGP. All applications are reviewed in conjunction with one or more third party due diligence providers.
- Continued to implement the ONFA, including monitoring the segregated fund values, monitoring, reviewing and providing analysis and advice on the Province's approval of OPG's ONFA Reference Plan submission in 2016 and related submissions, reviewing for approval OPG's ONFA Annual Budget submissions and disbursement eligibility and requests, and monitoring the provincial guarantee provided under ONFA to the Canadian Nuclear Safety Commission (CNSC) as part of OPG's financial guarantee requirement to the CNSC.
- Provided analysis and advice on electricity supply initiatives, including nuclear refurbishments.
- Provided continuous support on discussions related to developing infrastructure and projects in the Ring of Fire.
- Provided analysis and advice on policies to support the consolidation of Ontario's electricity Local Distribution Company sector.

6. *Ensure the successful execution of the OFA's decentralized Business Continuity Plan (BCP)*
 - Reviewed and updated the Corporate BCP Framework.
 - Business Units conducted monthly tests, ensuring their respective plans are reviewed and updated.
 - Carried out two corporate-wide BCP test exercises, and implemented improvements to the Plan based on the results of these tests.
 - Reviewed corporate BCP Command and Support Team membership.

2017–20 OBJECTIVES

Key objectives for 2017–20 include the following, as set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016:

1. Execute the Province's borrowing program
2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook
3. Manage key financial relationships
4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services
5. Advise on and implement corporate and electricity finance projects and policies

In addition to the foregoing, the OFA has also identified the following additional key objective:

6. Ensure the successful execution of OFA's decentralized Business Continuity Plan

Total Revenues and Expenditures

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017-18	2018-19	2019-20
Total Revenue	30,071	30,117	30,804	30,856	31,290
Total Expenditure	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

Further detail can be found in the Financial Budget contained in this plan.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval. Note that as part of the 2016–17 PRRT process, Treasury Board disallowed the OFA request for a two per cent inflationary increase in its budgeted allocations for the out years.

MANDATE AND GOVERNING LEGISLATION

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). CIPA sets out the objectives of the OFA. The OFA:

- conducts borrowing and investment for the Province of Ontario and manages the Provincial debt;
- provides cash management and other financial services for the Province;
- advises ministries, Crown agencies, and other public bodies on financial matters; and
- assists Crown agencies and other public bodies to borrow and invest money through external sources or through the OFA.

The OFA also provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario or OILC).

The OFA also sets out certain financial powers which OFA employees exercise on behalf of the Minister of Finance to carry out the Province's borrowing, manage the Province's debt and invest its liquid reserves.

OVERVIEW OF CURRENT AND FUTURE PROGRAM AND ACTIVITIES AND IMPLEMENTATION PLAN: 2017–20

Activities will focus on supporting the following strategic directions:

1. *Execute the Province's borrowing program*

Overview

The OFA endeavours to ensure that borrowing by the Province and OEFC is cost-effective. Total long-term public borrowing is forecast at \$23.3 billion in 2017–18 and \$28.7 billion in 2018–19. This year's objectives may be challenging to implement due to the state of the global economy/market and the resource constraints within which the OFA is operating. Furthermore, borrowing blackouts can limit the amount of time in which the OFA can access the market. This may require borrowing in excess of \$3 billion per month when these blackouts are not in effect in order to complete the annual borrowing requirement. Other challenges include:

- continued high amount of borrowing required for the Province, including the amount that will have to be undertaken outside Canada;
- competition in the markets from other large domestic and international borrowers;
- evolving regulatory requirements such as Basel III, Dodd-Frank and EMIR that continue to make hedging of foreign debt more expensive and a challenge to execute in the size required by the Province;
- potential challenges for Ontario's credit rating. A downgrade may result in borrowing costs increasing; and
- management of downgrading or failure of counterparties, and continued implementation of collateralized swaps to mitigate credit risk.

Implementation Plan

- Develop the annual Financing, Debt & Electricity Management Plans for OFA Board approval and transmission to the Minister. These plans provide detail on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
- Meet the Province's funding requirements, anticipated to average about \$25 billion annually for the business plan period, in a cost-effective and prudent manner.
- Manage the Ontario Savings Bond campaign.
- Continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program.

2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

Overview

The OFA manages the debt and liquid reserve portfolios, as well as centralized/segregated investment funds, for various public bodies, and jointly manages the Ontario Nuclear Funds with OPG. Financial risks associated with capital market activities are mitigated by adhering to prudent risk management policies which minimize financial risk by ensuring exposures and losses remain within approved limits. Risk management policies and program exposure limits are approved by the OFA Board of Directors. The OFA also contributes interest on debt, borrowing and debt management objectives, and electricity sector fiscal impact projections to the Budget, Fall Statement and other quarterly financial updates.

Implementation Plan

- Generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds, for various public bodies. Manage ONFA-related investments, working together with OPG.
- Ensure interest rate, foreign exchange and credit exposures are within approved policy limits.
- Contribute to the Province's annual Budget, Fall Statement and quarterly finances, including the electricity sector outlook; advise on the potential impact of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions. Continue playing an important role in the development of the Province's annual Budget and quarterly statements through the provision of timely and accurate financial information, and preparation of the Borrowing and Debt Management section of the Budget and Fall Statement.
- Continue with the implementation of the new methodology based on assessing individual debt issues by tenor, to measure the performance of the borrowing program.
- Continue to implement applicable changes as per financial and regulatory reform requirements including evolving effects from Basel III, EMIR and Dodd-Frank. These regulations are expected to continue to make the OFA's hedging process more complex. Hedging may also continue to become more expensive if proposals such as financial transaction taxes or mark-to-market derivatives taxes are legislated and implemented in Europe or the United States.

3. *Manage key financial relationships*

Overview

The OFA ensures investors and the financial community in Canada and abroad receive financial updates on a timely basis to make informed decisions about Province of Ontario debt securities. Investor Relations activities support borrowing program objectives by maintaining and broadening the Province's investor base. The OFA also ensures credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these factors in their reports and rating decisions.

The OFA manages the government's relationships with financial institutions, primarily the major Canadian and global banks, their investment dealer subsidiaries, and custodial and fiscal agents. This involves the acquisition and oversight of cost-effective products and services for the Province and certain Crown corporations.

Implementation Plan

- Support the Province's borrowing program by building and maintaining relationships with investors in existing and new markets. Provide Investor Relations information products, including updates to the OFA website, on a timely basis.
- Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives.
- Manage Ontario's relationships with banks, financial service providers and investment dealers.
- Complete regulatory filings with the U.S. Securities & Exchange Commission (SEC), United Kingdom Listing Authority (UKLA), Luxembourg Stock Exchange (LuxSE), Australian Securities Exchange (ASX) and any other applicable securities regulator. Conduct due diligence conference calls, as required, with the dealers and underwriters of the Province's debt securities offerings and their legal counsel.
- Implement and maintain collateralized swap agreements with bank counterparties to limit potential financial losses as a result of a credit event.

- Manage changes in financial and regulatory reform, liaising with regulators and legal counsel, as required.
4. *Provide services related to cash management, banking, settlement, payment and financial and reporting*

Overview

The OFA provides centralized banking and cash management services to the Province. The effective provision of these services allows for the efficient delivery of provincial services and contributes towards minimizing interest on debt expenditures. The OFA is responsible for settlements, payments and accounting/reporting functions associated with the Province's and OEFC's debt management programs, as well as agency financial reporting.

Implementation Plan

- Identify and implement effective treasury solutions for the Province and client agencies.
- Ensure that the Province has sufficient cash available at all times to meet its financial obligations.
- While compliance with PCI Data Security Standards is now in its sustainment phase, the OFA will continue to work with the other OPS stakeholders and the credit/debit card acquirer to ensure that the mandatory external reviews continue to report that that Province is in compliance with all applicable PCI standards.
- Continue to work with American Express and TD Merchant Services, the Province's card acquirer, to explore options for the continued acceptance of American Express cards via the acquirer's existing systems for Visa and MasterCard. The new arrangement would enable Amex cards to be used to obtain Provincial goods and services in a way that mitigates risk and increases efficiency for the Province.
- After the completion of a successful pilot, continue to work with the Ministry of Community and Social Services on the rollout of a reloadable payment card for unbanked benefit recipients under the Ontario Disability Support Program.
- Continue to advise ministries and agencies on the banking and cash management components of government initiatives including modernization and suitable banking options, as well as associated legal and regulatory aspects.
- Continue to collaborate with industry associations and provincial and federal jurisdictions on modernization initiatives and issues unique to the public sector.
- Continue the delivery of timely and accurate settlement/payment services for the Province and OEFC, including OEFC power supply contract settlements.
- Continue to work on the replacement of the Public Bodies Financing System with a new, internally developed/externally sourced system capable of handling all loans issued by the OFA and the Province. Progress is expected to proceed according to schedule and it is anticipated that the new system will be operational in 2017–18.
- Continue to work with the Ontario Pension Board, MOF Income Security and Pension Policy Division and TBS on the first phase of regularizing the management of various pension plans whose assets reside in the Consolidated Revenue Fund. The first phase is aimed at transferring the regulated portion of the assets of the Judges' Pension Plan to the IMCO generating annualized savings estimated to be \$15 million.
- Work with the Office of the Provincial Controller and OPG to develop options to address the potential under PSAB for Public Accounts consolidation adjustment impacts from OPG and Hydro One results under the International Financial Reporting Standards.
- Provide timely and reliable net debt and total debt estimates for the 2017 Annual Budget and the Province's quarterly reports during the fiscal year including the Fall Economic Statement.

- Continue to provide timely and accurate financial reporting for the Province on debt, derivatives and investments. Continue to provide timely and accurate agency financial statements that pass scrutiny of the OFA Board and the Office of the Auditor General.
- Continue to work with the Office of the Provincial Controller on providing value-added feedback on Chapter 2 of the Annual Report of the Auditor General of Ontario that deals with Ontario's Public Accounts.
- Continue to monitor and assess any new accounting developments of the International Accounting Standards Board, the Financial Accounting Standards Board in the U.S., the Accounting Standards Board and the PSAB of the Chartered Professional Accountants of Canada that affect reporting for the Province and its agencies.
- Continue to work with Deloitte Inc. in consulting with the accounting and borrowing communities of the other provinces towards providing PSAB with concerns expressed by these jurisdictions and Ontario. Also with Deloitte Inc., collaborate on developing options that address the provinces' concerns. Continue to liaise with the Office of the Provincial Controller and, where required, the Office of the Auditor General of Ontario in communicating with PSAB.

5. *Advise on and implement corporate and electricity finance projects and policies*

Overview

The OFA provides financial modelling, analysis and advice to the Ministry of Finance, other ministries, OEFC, Crown agencies, and other public bodies, on financial policies and projects, electricity sector policies and initiatives, and borrowing from capital markets. The OFA also provides assistance in structuring and completing financial transactions, and securing and using private sector financial advisers. The OFA has been leading the implementation of the Trillium Trust and will also continue to work with the Ministry of Finance, other ministries, and Infrastructure Ontario on on-going asset optimization initiatives, including unlocking the value of certain real estate assets. The OFA is providing analysis and support as the Province moves forward in selling up to 60 per cent of its shares of Hydro One over time.

The OFA will also continue to support and facilitate the implementation of a number of other government initiatives, including the Cap and Trade Program and investing in Ontario's venture capital sector.

Implementation Plan

- Provide analysis and advice on business cases and other financing proposals. Develop the structure and negotiate the detailed terms and conditions of transactions to minimize costs and best meet market expectations.
- Provide advice on cost-effective borrowing, investing and risk management by public bodies.
- Provide advice on transactions requiring a provincial guarantee or those that may otherwise increase the indebtedness or contingent liabilities of Ontario.
- Develop interest rate and other borrowing, investing and risk management policies, and advise ministries, agencies and public bodies on interest rates and other financing issues.
- Support initiatives for Ontario's various industry sectors.
- Provide continued support for the government initiative on OFA loans to public bodies.
- Provide support to the government on Ministry of Finance loans and loan guarantees as required.
- Continue to provide advice to ministries, Crown agencies and other public bodies on financing, loan structuring and credit enhancement strategies.
- Provide advice as required on evaluating the Province's assets, including investments in its business enterprises, and analysis and advice on asset optimization to enhance efficiency and maximize value.

- Provide policy and financial analysis, and modelling support, as required, for electricity policies and initiatives that could have fiscal, financial and/or economic implications for the Province and/or OEFC, including the following:
 - *The Ontario Rebate for Electricity Consumers Act, 2016.*
 - Ongoing implementation of the Industrial Electricity Incentive program.
 - Ongoing implementation of the NIER program.
 - Expanding the Industrial Conservation Initiative.
 - Electricity supply and conservation initiatives.
- Provide financial due diligence and advice to the Minister of Finance on applications received under the ALGP.
- Monitor and provide electricity sector fiscal and financial projections for the Province and OEFC, including analysis and advice to the Minister of Finance on the stranded debt, as well as continued reporting on OEFC's revenue sources (e.g. the debt retirement charge (DRC) for non-residential users, now legislated to end on April 1, 2018, and payments in lieu of taxes) and expenses (e.g. interest on debt).
- Provide analysis and advice to support the effective administration of ONFA and other initiatives related to nuclear liabilities, including monitoring and reviewing OPG's implementation of its ONFA Reference Plan as updated from time-to-time, approval of yearly ONFA budgets including investment related expenses, reviewing OPG's expected financial guarantee submission to the CNSC expected in 2017, including reviewing, monitoring, and seeking approval on any implications on a Provincial guarantee to the CNSC, as provided for under ONFA.
- Provide analysis and advice on nuclear supply, financing and cost recovery issues, including for nuclear refurbishments.
- Continue to monitor, review and support policy discussions on developing the Ring-of-Fire.
- Continue to work closely with staff at the MRIS and OCGC on approaches for managing the Province's investment in the Ontario venture capital sector. Support the CEO's role as Vice Chair of the OCGC Board.
- Provide analysis and due diligence related to Jobs and Prosperity Fund applications and relevant Eastern Ontario Development Fund and Southwestern Ontario Development Fund applications.
- Continue to support the government's asset optimization initiative of broadening the ownership of Hydro One by providing financial analysis and advice, and dedication of net revenue gains from these transactions to the Trillium Trust to support investments in infrastructure.
- Provide coordination and oversight of certain real estate asset optimization initiatives, such as, the divestment of OPG's head office properties, and Seaton and Lakeview lands.
- Lead implementation of the Trillium Trust to help support investments in transit, transportation and other priority infrastructure.

6. *Ensure the successful activation of OFA's decentralized Business Continuity Plan (BCP).*

Overview

The BCP remains in place and is updated as required to be successfully activated so staff can complete critical time-sensitive tasks in the event of a business disruption.

Implementation Plan

- Review and update the Corporate BCP Framework.
- Review and update Business Unit plans.
- Plan and conduct corporate-wide BCP test exercises.

- Review corporate BCP Command and Support Team membership.

Implementation of the above strategic directions will require regulatory compliance and reliable information technology.

RISK IDENTIFICATION AND ASSESSMENT

Summary Table

Accountability	Risk Assessment	
P Primary	L Low	H High
X Additional	M Medium	EH Extremely High

Risk Assessment Summary		Accountable Business Division						Risk Assessment		
		Capital Markets	Corporate & Electricity Finance	Finance and Treasury	Legal	Risk Control	Strategic Corporate Services	Likelihood	Impact	Overall Assessment
Strategic Risks	Strategic / Policy Risk	P	X			X		L	EH	H
	Meeting Stakeholder Expectations	P		X				M	EH	H
	Public Image	P		X				L	H	M
	Quality of Relationship with Stakeholders	P		X		X		L	H	M
Accountability / Governance	Governance, Information, and Regulatory Compliance	X		P	X			L	H	M
	Risk and Issue Management			X		P	X	L	EH	M
	Statutory Requirements are met				P			L	H	M
	Reliability of Financial Systems			P				L	H	M
Operational	An economic slowdown straining the fiscal plan, thus affecting the borrowing program	P						M	H	H
	Financial Market Risk	X				P		M	H	H
	Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt	P						L	EH	H
	Risk of credit rating downgrade	X				P		M	H	H
	Credit Risk	X				P		L	H	M
	Electricity Policy and Price Risk		P					M	M	M
	Operational, including systems, internal control, and reputation risks	X	X	X	X	X	P	L	H	M
	Service Providers (e.g. custodians, fiscal agents, banks, etc.)			P				L	M	L
	Low investment returns or inadequate investment controls on nuclear funds	P						M	H	H
	Default on Loans to Public Bodies		P					L	L	L
	Default on Guarantees under the ALGP		P					L	L	L
	Increased borrowing to fund loans to public bodies		P					L	L	L
	Government Cost Constraints			P				M	H	H
	Employee Fraud			P				L	M	L
Workforce	Human Resource Risk	X	X	P	X	X	X	M	EH	H
Information Technology and Infrastructure	Privacy and Security						P	L	M	L
	Business Continuity						P	L	H	M
	Procurement			X			P	M	M	M

Risk Identification, Assessment, Mitigation Strategies

The following section identifies potential risks that could impact the entire organization in its ability to successfully deliver its programs and activities on behalf of the Province.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: STRATEGIC RISK AREA: Strategic: Risks related to implementing (or not implementing) new policies or changes to existing policies (e.g., misalignment of agency policies with those of the OPS). The risk that strategies and policies will fail to achieve required/targeted results. The risk of failing to provide value for money or cost-effectiveness. This can include existing policies that may be affected by changes in external factors including the economy, technology and political environment.					
Strategic/ Policy Risk Primary Accountability: Capital Markets Division	Strategies and policies fail to achieve required results. Prime examples are failing to meet the borrowing requirements and failures in implementing core risk management strategies.	<u>LOW</u> Past experience indicates that the likelihood of major strategic failures is relatively <u>low</u> as they cannot always be eliminated. There are elements of borrowing and risk management which are outside the Province's control which can negatively impact required results. For example, financial conditions could result in higher interest costs or interest rate risk than anticipated or refinancing risk in future years may be much higher than desired if investor demand for longer term bonds is substantially reduced.	<u>EXTREMELY HIGH</u> The financial consequences of strategic failures in borrowing or risk management strategies and associated policies can be <u>extremely high</u> , and the annual Financing, Debt & Electricity Management Plan outlines strategies which attempt to address the challenges, including contingencies for unexpected events. In addition, management monitors major market and policy developments throughout the year very closely and will develop and implement new strategies and policies if conditions warrant. Even though the likelihood of major strategic failures is low, the impact remains extremely high resulting in an overall high risk assessment.	<u>HIGH</u>	Strategic plans and policies to mitigate strategic and policy risk are initially developed and implemented in a thorough manner as outlined in the OFA's annual Financing, Debt & Electricity Management Plan ("the Plan"). This includes an analysis of risk factors and contingency plans. The Plan is approved by the respective Boards (OFA and OEFC) and receives input from Board members. Market conditions and policy developments are monitored on a continual basis throughout the year to identify new and emerging developments which could impact strategic and/or policy risks. Existing control strategies are modified as required to mitigate adverse developments. Procedures are in place to ensure that staff are aware of relevant policies. Policy violations are rare, and a robust control framework exists to identify violations quickly. Most violations would not have a large enough impact to threaten achieving required strategic results.
Meeting stakeholder expectations	The risk that the OFA may fail to meet stakeholder expectations, including those of the Province and other public bodies.	<u>MEDIUM</u> There is a <u>medium</u> likelihood of failure to meet stakeholder expectations and performance	<u>EXTREMELY HIGH</u> Given that the impact of not meeting stakeholder expectations can be <u>extremely high</u> , combined with a	<u>HIGH</u>	An analysis of risk factors and contingencies is included in the OFA's annual Financing, Debt & Electricity Management Plan. This analysis is revisited throughout the year.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Capital Markets Division	Stakeholder expectations include strategic/policy risk factors as well as the risk of failing to meet performance benchmarks.	benchmarks. Market factors tend to be relatively unpredictable and many factors are out of OFA's control. The current environment of expanding service requirements and constrained resources adds some risk; however, it is expected to be minimal. Based on past experience, it is expected that most stakeholder expectations will be met.	medium likelihood the net result is a high risk assessment. The impact of a one percentage point increase in yields was estimated to be \$350 million for 2016–17. Although the OFA has been able to extend the borrowing term in recent years, interest rate risk will remain elevated for several years. Continuous communication with the Deputy Minister and Minister ensures that expectations for the Province are clearly understood. Commitments are made after thorough and careful analysis to ensure that resources and expertise are in place to meet those expectations. Close and continuous communication and meetings with relevant public bodies (e.g. Agencies) who use our services ensures that expectations and service requirements are clearly understood. In addition, formal service level agreements (e.g. investment management agreements) have been developed which clearly outline the services and benchmark performance standards.		Given the relatively unpredictable nature of market factors, ongoing monitoring of market and policy factors provides a level of risk mitigation. Continuous dialogue with stakeholders and regular reporting are also useful in keeping abreast of both expectations and performance. Emerging issues which may affect expectations are identified and are regularly reported to the Deputy/Chair as well as the Board (OFA and OEFC). This provides greater assurance that expectations will be met or managed through approved mitigation strategies. Meeting performance benchmarks for the Province and other public bodies also depends on adequate resources being available to maximize performance. This includes information systems services, and most importantly, staff. A highly educated and experienced workforce provides a higher likelihood that stakeholder expectations will be met. The OFA works to attract and retain highly qualified staff.
Public image Primary Accountability:	The risk that the OFA may damage its reputation with stakeholders and third party service providers.	<u>LOW</u> The likelihood of reputational risk to the OFA is low.	<u>HIGH</u> The impact of image problems can be high which combined with a low	<u>MEDIUM</u>	Public image risk is mitigated through a host of strategies: i) a strong policy framework to provide greater information to staff to make them aware of potential public image problems; ii) strong internal controls to reduce the risk of policy violations and

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Capital Markets Division		There are extensive policies to govern staff conduct including, with respect to conflicts of interest, procurement and workplace harassment. In addition, procedures are in place to ensure that staff are aware of all policies. There are also regular reporting requirements and internal controls to reduce the potential for policy violations. Dealings with the press are handled through official MOF communication staff and investor and other stakeholder information is handled with extreme care. Accordingly, the likelihood of reputational risk problems with stakeholders and service providers is low , although mistakes can happen and there are certain factors which the OFA cannot control.	likelihood results in an overall medium risk assessment.		adverse information releases; iii) public communication protocols to reduce the risk of incorrect and damaging information releases; iv) an investor relations program which is responsive to investor needs and responds to investor requests for information promptly; v) ongoing dialogue with dealers to keep abreast of information in the marketplace relating to both Ontario and the OFA; and vi) a management structure and culture which promotes security of information and extreme care in disclosing information in a public forum. Strategies iii-v involve constant communication with external stakeholders. This feedback loop provides the OFA with a method of assessing the organization's public image. The OFA has a comprehensive procurement policy that ensures that its suppliers and service providers are selected in a fair manner. When appropriate, the OFA requires that service providers obtain security clearance. OFA contracts with service providers address confidentiality and contract precedents generally require approval before a contractor may use its association with the OFA for any purpose. All substantive contracts that Capital Markets enters into in the name of the OFA must be reviewed by the OFA Legal Branch. All substantive contracts that Capital Markets enters into in the name of the Province, must be reviewed by MOF Legal.
Quality of relationship with stakeholders	The risk that the OFA's stakeholder relationships are poorly managed.	<u>LOW</u> The likelihood of failure managing OFA's stakeholder relationships is	<u>HIGH</u> The quality of the business relationships with stakeholders that the OFA is	<u>MEDIUM</u>	The OFA provides relevant, non-confidential information to investors in a fair and transparent manner, including information pertaining to the Budget and quarterly finances. Confidential information is handled in a manner consistent with laws and regulations, such as the <i>Public</i>

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Capital Markets Division		<u>low</u> as the OFA strives to deal with all of its stakeholders in a fair, transparent and responsive manner.	engaged in such as investors, credit rating agencies, dealers and employees can have a high impact on the success and cost of OFA activities. However, the likelihood of failure in these activities is relatively <u>low</u> which results in an overall medium risk assessment.		<i>Services Ontario Act, 2006</i> and the <i>Securities Act, 1990</i>. The annual Investor Relations Plan is developed each year with the goal of providing updates to investors, both domestic and international, on a regular basis through outreach and information products. Requests for information or meetings from investors are responded to very promptly. The quality of the Province's relationships with stakeholders is constantly monitored. Should the strategies in the annual Investor Relations Plan fail to achieve the desired relationship levels, the OFA can choose to engage additional financial dealers or more senior Ministry of Finance representatives to participate in its investor outreach activities. Dealers are utilized in a fair and objective manner for bond issues. A syndicate evaluation is used to rank domestic dealers objectively, and commissions for domestic bond issues are based on this annual evaluation. Dealers thus know the OFA's service priorities and understand their bond issue allocations for the year. International issues also utilize dealers based on their level of service and strengths they bring to particular markets and issuance opportunities. The OFA continuously communicates with its dealers and also has regular meetings with them, and thus relationship issues tend to be dealt with quickly. Given the high importance of Ontario's credit ratings to its borrowing program, the OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to requests for information, and facilitates participation of more specialized or senior government officials as required.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk Category: ACCOUNTABILITY / GOVERNANCE Governance/ Accountability/ Organizational Risk: Risk that the organizational structure, accountabilities or responsibilities are not defined, designed, communicated or implemented to meet the organization's objectives, and/or that culture and management commitments do not support the formal structures. Risk of conflict of interest for board members. Inadequate ethics / codes of conduct. Inadequate definitions of roles and responsibilities. Risk of failure to comply with administrative requirements, such as directives. Legal/ Contractual Compliance Risk: Risk related to the potential cost of complying with a contractual agreement, or of litigation (including established policy and procedure) against the agency or government. Risk that a government initiative or action will contravene a contract, Memorandum of Understanding or policy. The costs/risks related to changing legislation could include lawsuits, settlements, fines, penalties and legal fees. Risk of failure to comply with administrative requirements such as directives.					
Governance, Information and Regulatory Compliance Primary Accountability: Finance and Treasury Division	The risk that oversight and governance responsibilities are not clearly defined; the risk that internal and external information produced or used is incomplete, out-of-date, inaccurate, irrelevant or inappropriately disclosed.	<u>LOW</u> The likelihood of failing in this area is <u>low</u>. Various policies and procedures define roles and responsibilities required for effective governance, including oversight by the OFA Board, chaired by the Deputy Minister of Finance, and largely comprised of independent, external members; and reporting requirements to the Minister of Finance. Furthermore, the audits by Internal Audit Division that cycle over all major functions of the OFA include a review of the associated policies and procedures and to date no material gaps have been identified. All audit recommendations are presented to the OFA ARMC and addressed within reasonable timeframes.	<u>HIGH</u> The impact of failing in this area is <u>high</u>; however, combined with the low likelihood of this happening results in a medium risk assessment	<u>MEDIUM</u>	Regular and special meetings of the OFA Board and its Committees, comprised of the Audit and Risk Management Committee (ARMC), Human Resources and Governance Committee (HRGC) and the ONFA Investment Committees (ONFA IC). The Deputy Minister of Finance is, pursuant to CIPA, the Chair of the OFA Board, which establishes a clear governance framework for OFA management and accountability to the Minister of Finance. The OFA uses secure communication procedures with internal and external parties; it also undertakes effective oversight of service providers, reconciliation processes, stringent disclosure policies, staff learning and development, and timely filing of regulatory reports.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Risk and issue management Primary Accountability: Risk Control Division Secondary Accountability: Finance and Treasury Division	The risk that the OFA may not effectively manage and mitigate financial risks including fraud risk.	<u>LOW</u> A review process established at the OFA that includes daily compliance monitoring, division of responsibilities, and a highly-developed and rehearsed response plan for emergencies results in a <u>low</u> likelihood.	<u>EXTREMELY HIGH</u> The OFA is a major participant in capital markets and has extensive dealings with banks on behalf of the Ontario government. As a result, the potential impact for errors and omissions is <u>extremely high given the associated high dollar value.</u> The extensive mitigation strategies employed by the OFA however, reduce the overall assessed risk to Medium.	<u>MEDIUM</u>	Financial risks associated with the OFA capital market activities are managed through the OFA risk management framework, which includes policies that are updated, reviewed by the Ontario Internal Audit Division and approved by the Board on an annual basis. Compliance with policies is monitored through a daily reporting cycle including where applicable on a real time basis, and credit risks are also monitored in real time. Fraud: Division of responsibilities between divisions to create a separate front, middle and back office for capital markets transactions and appropriate separation of duties and signing authorizations within divisions reduce risk of fraud. All staff is encouraged to report any wrongdoing at all times and senior management is asked to confirm quarterly whether they are aware of any wrongdoing. Issues management: In addition to a monthly Capital Markets update letter, the CEO also reports on any issues or concerns quarterly to the Board and has regular meetings with the Chair. Division Heads/Directors report quarterly to the Board on their area's progress in achieving the objectives identified under the Annual Business Plan. The OFA's financial statements are prepared and presented on a quarterly basis to the ARMC and the Board. They are also shared with senior staff of the Office of the Auditor General. The OFA provides the interest-on-debt, debt and derivative information that is presented in the Public Accounts of the Province. The numbers and the process including the

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
					underlying internal controls are audited annually by the Office of the Auditor General. Up to now, no material issues have been identified as part of this audit. OFA prepares issues notes, and feeds into the Ministry's communications branch for issues management and to address contentious issues. The Ontario Internal Audit Division develops a three year audit plan for the OFA that is updated annually. Audits under this plan, as well as special reviews as and when required provide an overall comfort level. The ARMC conducts in camera sessions with internal audit, staff of the Office of the Auditor General and the OFA's Chief Financial and Risk Officer at each quarterly meeting during which they are free to candidly raise any concerns about overall risk and issues management issues at the OFA. To avoid financial risk resulting from an inability to function during an emergency, the OFA has a highly-developed and rehearsed response plan for emergencies, addressing key risks such as fire, terrorist attack, pandemic or other threat. The work of the OFA can be carried out with all staff working from home. The OFA also maintains a collocate site at a remote location that houses a continuously available, mirrored IT infrastructure. Staff are subject to randomly declared, OFA-wide, work-from-home drills at least annually. OIAD reviews and comments on business continuity test results.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Statutory requirements are met Primary Accountability: Legal Division	Risk of non-compliance with statutory requirements	<u>LOW</u> The likelihood of non-compliance is considered <u>low</u> because OFA staff have experience and awareness regarding legal compliance in relation to the performance of their jobs. While regulation in some areas (such as in capital markets and the banking and payment card industry) is complex and continues to evolve, program areas have ready access to legal advice.	<u>HIGH</u> Impact is considered high since failure to comply with a statutory requirement could negatively affect the reputation of the OFA and the Government. Also, violations relating to capital markets operations could have serious financial implications. Combined with a <u>low</u> likelihood, the resulting overall risk assessment is medium.	<u>MEDIUM</u>	Currently, the OFA and Ministry of Finance Legal Branches advise of statutory requirements and changes affecting OFA operations and also are available to advise on steps to effectively address any non-compliance. Information on legal requirements relating to Public Servants is distributed to staff using the Policy and Procedure Management system. Non-compliance with laws, regulations and directives is reported to the Legal Director, who reports it to the CEO and the Board of Directors. CEO/Board direct remedial action (which may include learning and development). Education is encouraged and Divisions budget for necessary learning.
Reliability of financial systems Primary Accountability: Finance and Treasury Division	The risk that the OFA's financial information and reporting system is not reliable or fails to meet quality standards.	<u>LOW</u> The review process that the OFA has established including audits by the Internal Audit Division and the Office of Auditor General of Ontario ensures that the likelihood of occurrence is <u>low</u> .	<u>HIGH</u> While the impact of less than reliable financial information is indeed <u>high</u> , the low likelihood of this happening results in an overall medium risk assessment.	<u>MEDIUM</u>	The OFA has well-established processes and procedures for monitoring and reporting on its financial performance to its ARMC and Board of Directors and to the ministry as well as the Office of the Treasury Board. OFA financials are prepared on a quarterly basis for discussion, and shared with the staff of the Office of the Auditor General and approval by the ARMC and Board of Directors. In addition the OFA financials are audited annually by the Office of the Auditor General who has provided unqualified opinions on all past financials. Staff of the Office of the Auditor General also audit, on an annual basis, the OFA's work on the Province's debt and interest on debt. This annual audit includes reviewing the underlying systems and internal controls. Up to now, no material issues have been identified and the OFA has implemented all recommendations arising from this audit. Changes to accounting pronouncements are also addressed during the quarterly discussions with the ARMC and

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
					the Office of the Auditor General. Annual budgets and audited financials are submitted to the Ministry as per TBS requirements. A further level of assurance exists as a result of the work carried out by the Ontario Internal Audit Division (OIAD). OIAD develops a 3 year audit plan with consultation from Division heads and all finding and recommendations are presented to the Audit and Risk Management Committee of the OFA Board. The OFA's progress in implementing recommendations are also presented on a quarterly basis to the same committee.
Debt and Risk Management Risk Category: OPERATIONAL RISK AREA: Program Caseload/ Utilization: Change in demand for services or entitlements or increased claims/case load that can be deferred. Assumes no policy or legislative changes.					
An economic slowdown straining the fiscal plan, thus affecting the borrowing program. Primary Accountability: Capital Markets Division	Fiscal strain stemming from a significant economic slowdown would likely result in higher borrowing requirements. This could be experienced as much larger borrowing requirements over a fairly short time horizon or consistently higher requirements over a longer time period.	<u>MEDIUM</u> The possibility of a major downturn in economic activity or longer term slow economic growth is given a <u>medium</u> likelihood due the historical frequency of such events. The last recession was approximately eight years ago. Since then, the Ontario economy has had only modest growth in recent years, with MOF projections showing a continued trend of low to medium economic growth.	<u>HIGH</u> The impact on the borrowing program will depend in part on the extent of the economic slowdown. A large economic slowdown, perhaps a recession, would have a large impact on the borrowing program over a couple of years, but persistent sub-par growth would also be painful. The impact of a one percentage point change in nominal GDP was estimated to be \$890 million for 2016-17. The world economy is currently highly reliant on U.S. economic growth and would be at risk if that fades. Given that Ontario's borrowing requirements are already quite large, the impact	<u>HIGH</u>	The Capital Markets Division is in constant contact with external economic experts who provide forecasts and analysis on the Province's economy as well as other major economies around the globe (including Canada's). In addition, the OFA is provided with a wealth of forecasts and economic insight from the Ministry of Finance. The OFA undertakes its borrowing strategically to reduce the effects of forecasted events and also looks to pre-borrowing to the extent possible. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
			would likely be high, meaning that interest costs could increase appreciably. One result could be a reduced average term of borrowing to reduce borrowing costs or respond to reduced demand for longer term debt which would increase refinancing and floating rate risk. There could also be pressure to increase foreign exchange or counterparty credit exposures in order to reduce costs. The overall assessment of this risk is high .		
Financial market risk Primary Accountability: Risk Control Division	Higher-than- forecast borrowing requirement and/or interest rates, resulting in higher annual interest-on-debt (IOD) charges. Financial loss attributable to changes in interest rates, credit spreads, foreign exchange and liquidity risk.	<u>MEDIUM</u> Higher-than- forecast borrowing requirement and/or interest rates is given a <u>medium</u> likelihood due the historical frequency of interest rate changes, and the current medium-term forecast of provincial borrowing requirements.	<u>HIGH</u> The size of the province's annual borrowing requirement creates a <u>high</u> degree of sensitivity to market conditions, especially interest rates. IOD has generally produced cost savings compared to budget forecasts due to cost effective debt management, as well as interest rates that have been trending down for about 35 years. This experience may not be expected to continue, so financial market risk is assessed as being high. In the <i>2016 Budget</i> , it was estimated that a one percentage point increase in interest rates would have impacted IOD by approximately \$350 million for 2016–17.	<u>HIGH</u>	Sound and effective risk management infrastructure, including policies, procedures, risk management reporting, and Information Technology (IT) systems. The OFA uses a conservative risk limited approach to forecasting interest on debt expenses. This is achieved by using interest rate forecasts provided by the Office of Economic Policy for the two out years and a 15 year interest rate average for the third out year. Accurately measure and assess portfolio exposures and ensure compliance with the related limits as approved by the Board, including foreign exchange and net interest rate resetting exposure limits and IOD. Maximum foreign exchange exposure of five per cent. Maximum net interest rate resetting exposure of 35 per cent. Maximum loss policy on IOD of three per cent of budgeted IOD. The OFA has reduced the sensitivity of IOD to interest rates by extending the term of recent borrowings. It also maintains

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					exposure to foreign currency at levels far below the five per cent limit. While the policy limit for net interest rate resetting exposure is 35 per cent, the annual debt management plan sets out ranges that are usually considerably lower thus further limiting the risk.
Inability to complete the borrowing program due to market breakdown or loss of faith in the Province's ability to repay debt Primary Accountability: Capital Markets Division	Unable to achieve the borrowing program target of a particular fiscal year.	<u>LOW</u> The likelihood of not completing the borrowing program is low and would be based on a major market disruption or a major adverse credit situation at the Province. Both events are considered to have a low likelihood.	<u>EXTREMELY HIGH</u> The consequences of a major market disruption or a major adverse credit situation at the Province would obviously be extremely high , and thus overall risk is high.	<u>HIGH</u>	The OFA continually monitors demand for its bonds and has a strong relationship with its financial dealers. The OFA is aware, through external forecasts, Ministry of Finance advice, and its own analysis of bond markets, of the faith investors place in its bond offerings. The Capital Markets Division employs financial strategies, to reduce the effects of forecasted events. The OFA can also engage third party experts to provide advice on how to reduce any adverse events that may have an impact on the borrowing program. The OFA has very well established relationships with the credit ratings agencies. The OFA has regular meetings with the agencies, responds promptly to request for information, and facilitates participation of more specialized or senior government officials as required.
Risk of credit rating downgrade	Risk that a credit rating downgrade from a major credit rating agency results	<u>MEDIUM</u>	<u>HIGH</u>	<u>HIGH</u>	Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Primary Accountability: Risk Control Division	in increased costs to borrowing program and/or reduced market access.	The likelihood of a credit rating downgrade is medium . The OFA has regular meetings with the agencies, and is regularly advised of rating agency concerns. Based on regular meetings with agencies and outperformance of its fiscal targets in recent years, the risk of a credit downgrade is not considered to be high, although debt levels remain high.	A credit rating downgrade, could reduce the pool of investors able to buy Government of Ontario bonds. As a worst-case, investors might be forced to sell, creating competition for our primary distribution, therefore resulting in a high impact for the Province. Note: This risk is assessed as high. The best mitigating strategy, reducing the size of the provincial deficit, is not a variable that is under the control of the OFA.		the Province's financial status priorities, and initiatives. Diversify funding sources. Increase investor relations activities. Ensure that decision-makers at Queen's Park continue to be mindful of the serious consequences of the Province not meeting or beating its deficit targets.
Credit Risk Primary Accountability: Risk Control Division	Risk that the Province incurs a significant loss because a counterparty does not meet, or defaults, on its obligations to the Province.	<u>LOW</u> The size of Ontario's borrowing program requires the OFA to be open to borrowing opportunities in a variety of currencies. As the OFA has opted to keep currency risk at very low levels, this requires that hedging transactions be entered into with bank counterparties, creating credit risk. A bank default is considered to be a low probability event.	<u>HIGH</u> A bank default would be a high impact event, however, the assessment is overall medium as a result of the OFA's implementation of a comprehensive mitigation strategy including collateralized swap agreement and limiting transaction to highly rated counterparties.	<u>MEDIUM</u>	Ensure compliance with a sound and effective credit risk management infrastructure, including: an overarching credit risk policy that is reviewed and approved by the OFA Board on an annual basis, transacting with highly rated counterparties, limiting credit exposure concentration, and ongoing monitoring of key indicators of credit and market conditions. The Province will continue to enter into collateralized swap agreements with more of its swap counterparties to limit its credit risk. Such agreements allow the Province to cap its credit risk by requiring counterparties to post collateral when marked-to-market exposures exceed specific thresholds.
Electricity related policy,	Government policy, accounting or regulatory decisions, electricity sector	<u>MEDIUM</u>	<u>MEDIUM</u>	<u>MEDIUM</u>	Provide financial analysis and advice to senior Ministry of Finance officials and government on electricity policy options and initiatives, and maintain

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
price and other risk Primary Accountability: Corporate & Electricity Finance Division	structure, and potential electricity price and market events may have an impact on the financial performance of the Province, including reduced payments to the OEFC from, for example, the Province, Ontario Hydro successor companies and municipal electricity utilities, or price mitigation measures such as the new Ontario Rebate for Electricity Consumers, thus affecting the borrowing program.	The likelihood of this risk is deemed medium . The fiscal contributions of the electricity sector can fluctuate for many reasons, including the performance of OPG and Hydro One vs forecast, policy decisions including the timing of Hydro One share sales, regulatory decisions and volatility in electricity demand/prices. Fiscal expenses are largely determined by policy decisions. Volatility and policy change impacts can be both upward and/or downward.	While the electricity sector has a significant fiscal impact, it is not large compared to the total size of the Provincial Budget. In addition, certain fluctuations are within the government's control and borrowing issues should be manageable within the larger envelope of the Province's total borrowing program. Therefore the impact is rated as medium , leading to an overall medium assessment.		relationships and work with other ministries and agencies. Monthly meetings, and as needed, with OPG to monitor and report on financial performance and updated projections versus plan, as well as monitoring of policy, accounting and regulatory issues that may have fiscal implications upon consolidation of OPG and Hydro One in Public Accounts.
Operational, including systems, internal control and reputation risks Primary Accountability: Strategic Corporate Services Division	Risk from inadequate or failed internal processes and IT systems or from external events. The possibility that internal controls may not safeguard assets or prevent errors or fraud. The risk that negative publicity about the OFA's business practices may lead to financial or reputation costs or litigation.	<u>LOW</u> The likelihood of this risk is deemed low . The OFA's mandate and operations in a capital markets environment requires the extensive use of information technology. The fact that the OFA's mandate has also increased over the past years with no corresponding increase in staff resources has also resulted in a dependence on information technology. While this has allowed for efficiencies, this dependence also gives rise to the risk that IT systems may be poorly specified, operate incorrectly, or that the use of combinations of systems may have unintended consequences.	<u>HIGH</u> The financial impact of such risks could be compounded by harm to the OFA's reputation, therefore its impact is deemed high . This risk, reduced by the mitigating strategy, is assessed as medium.	<u>MEDIUM</u>	Maintain state-of-the-art IT systems, conduct daily back up, frequent update and testing of BCP involving remote desktop and co-locate. Appropriate documentation and timely reporting; update financial controls based on best practices; continued involvement of Internal Audit in developing new functions and reviewing existing financial policies; ensure oversight of service providers. As part of its annual audit, the Office of the Auditor General issues recommendations on areas where they feel internal controls can be tightened. Monitor print media to identify OFA-specific issues to protect OFA's reputation. Centralized external communication strategy. Early involvement of legal counsel.

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Service providers (e.g. custodians, fiscal agents, banks etc.) Primary Accountability: Finance and Treasury Division	Poor service from existing providers and/or lack of qualified service providers.	<u>LOW</u> The likelihood of this risk is deemed <u>low</u> . Service providers are selected through a rigorous competitive process that includes the submission of proposals covering performance standards and measures, followed by consistent internal monitoring of service quality.	<u>MEDIUM</u> Consistent internal monitoring ensures a <u>medium</u> impact for a low overall risk assessment.	<u>LOW</u>	All existing service providers provide services under a formal contract. Continue to implement and monitor service level agreements with existing providers. Continue to comply with selection criteria and contract management requirements in OFA procurement policy
Low investment returns or inadequate investment controls on nuclear funds. Primary Accountability: Capital Markets Division	If funds are not properly invested or general financial market returns are low or negative, substantial contributions could be required by one or both of the Province and OPG. In addition, the Province's reputation may be damaged if controls or investment policies deviate from industry best practices.	<u>MEDIUM</u> Prolonged poorer than targeted performance of the nuclear funds over the medium-term is given a <u>medium</u> likelihood. The nuclear funds have a very long time horizon and would be expected to have poor returns over some time periods but are required to earn real returns in excess of 3.25 per cent in the long run. The funds have exceeded the 3.25 per cent annualised real return benchmark on average since their inception in 2003, but there is some risk that cumulative average annualised returns may be inadequate in future or that the costs of decommissioning and used fuel disposal could well exceed current projections. Returns will be driven to a large extent by asset allocation and general investment returns in financial	<u>HIGH</u> The financial impact of poor performance could be quite substantial and is rated <u>high</u> given the size of the funds, and could result in substantial unexpected contributions from one or both of the Province and OPG. The overall risk assessment is high. Given the current size of the funds, a one percentage point decline in annual performance would equate to \$170 million in reduced value for the funds, which could affect future funding requirements. Such loss, however, will not translate dollar-to-dollar on the Province's annual statement of operations at consolidation, as the Province's revenue recognition related to the nuclear funds is based on historical cost, not fair value, and some of the	<u>HIGH</u>	The funds are diversified across asset classes and managers to reduce overall risk. Further diversification is being achieved as the funds move into alternative investments. The funds are also long-lived, and can be adjusted and returns recover over the long term, which result in the recovery of past Provincial contributions to cover investment return shortfalls, if any. In addition, a Statement of Investment Policies and Procedures (SIPP) and Statement of Investment Risk Policies (SIRP) are in place which outline basic policies which to a large extent address many of the risk factors. An extensive asset-liability study is undertaken every five years to attempt to optimize the asset allocation to meet the funds objectives to meet the cost requirements. Significant progress has been made in developing a comprehensive risk management framework which is expected to be implemented in 2017. In addition, the funds are closely monitored by staff and up to the respective Board levels by both the OFA and OPG including, for the OFA, by the ONFA IC. Unfortunately, the risk of sub-par returns cannot be entirely eliminated as it

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
		markets -- e.g., prolonged poor performance in equity returns or a general decline in the financial markets could be a driver of poor performance. Resourcing for the nuclear funds is relatively tight, although it is considered adequate. The likelihood of inadequate controls on the funds is assessed to be low.	impact is also mitigated by OPG's regulatory accounts for the funds related to the Bruce stations, under the Province's current accounting standards. In addition, the reputational impact of underperformance would also be high. The overall assessment of inadequate controls is high.		will be largely driven by the future market developments. Decommissioning and waste disposal costs and liability risk surprises are largely mitigated by the quinquennial ONFA Reference Plan update. The contribution schedules can be adjusted following a reference plan update to allow for returns in the funds to help cover liability revisions and past target rate of return shortfalls. The funds are audited on a regular basis which reduces the potential for fraud or other control problems. Staff monitor the funds very closely and are looking for irregularities. In addition, the funds are monitored up to the respective Board levels by both the OFA and OPG. The internal auditors of both OPG and the OFA are also proactive in examining control issues. The funds rely largely on external managers, and efforts are made to select highly professional managers who follow investment industry best practices.
Default on Loans to Public Bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of default by public bodies on OFA loans	<u>LOW</u> Although the OFA has restructured or provided a loan deferral in the past, this has been relatively rare, so an "unlikely" scenario (less than 20 per cent probability) is reasonable, and its likelihood is rated as low .	<u>LOW</u> Impact of a default may be "noticeable" and public, but loan write-downs to public bodies that are consolidated on the Province's financial statements would likely not create a fiscal impact, and, therefore, its impact is deemed low resulting in an overall low risk assessment.	<u>LOW</u>	Prior due diligence and analysis of debt repayment ability of public bodies on OFA loans. Ensure grant intercept mechanisms continue to be included in loan agreements. Early detection through loan monitoring by line ministry and restructuring of loan repayment terms.

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Default on Guarantees under the Aboriginal Loan Guarantee Program (ALGP) Primary Accountability: Corporate & Electricity Finance Division	In the event of a call on an ALGP guarantee arising from a default on the underlying loan, the fiscal impact would be recorded in the fiscal year in which the claim was paid.	<u>LOW</u> Debt service reserve account, ongoing monitoring, bank account controls are in place to mitigate risk of default.	<u>LOW</u> Any default would have a negative fiscal impact on the Province in the year in which the Province paid a claim pursuant to the guarantee. As guarantees are limited to a maximum of \$50 million (unless Treasury Board approves an exception), and the average is smaller, the impact is small in the Provincial context. However, there may be a reputational impact for the Province/OFA as well.	<u>LOW</u>	Ongoing monitoring of approved loan guarantees, including project performance and compliance with loan and guarantee agreements.
Increased borrowing to fund loans to public bodies Primary Accountability: Corporate & Electricity Finance Division	Risk of unexpected loans that were not included in the OFA Annual Borrowing and On-Lending Plan.	<u>LOW</u> Over the past five years, only one unanticipated non-school board loan caused the OFA to breach its loan contingency reserve. An “unlikely” rating of less than 20 per cent probability of occurrence is, therefore, prudent, resulting in a <u>low</u> likelihood.	<u>LOW</u> In the overall borrowing plan, any unexpected loans would likely not have a “noticeable” effect, as most incremental borrowing is not material in the context of the whole borrowing program and therefore can usually be accommodated. This results in a <u>low</u> impact and a low overall risk assessment.	<u>LOW</u>	Ensure there exists an unassigned contingency equal to 10 per cent of forecasted loans to public bodies. Push off less urgent loans for execution in the following fiscal year. For OLG and LCBO, request business updates from Regulatory Agency Oversight Division (RAOD) to identify potential borrowing requirements (e.g. for site expansion); include estimates in Borrowing and On-lending Plan. Where a policy decision is taken requiring the OFA to provide funding for a strategic project, facilitate private sector financing, especially if interest cost savings are only deemed to be minimal.
Government cost constraints	Cost constraints may limit the OFA’s ability to provide services in a timely manner.	<u>MEDIUM</u> While good budgeting process and budget to actual comparison exists,	<u>HIGH</u> If budgetary constraints are severe enough the delivery of core services will	<u>HIGH</u>	Timely budget preparation in accordance with PRRT requirements. The budget preparation process is aimed at allocating resources according to priorities.

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Primary Accountability: Finance and Treasury Division		the OFA is not insulated against budgetary constraints. The likelihood is deemed <u>medium</u> .	be impacted justifying a <u>high</u> impact and high overall risk assessment.		Detailed planning and monitoring to meet priorities within cost constrained environment. Comparison on a quarterly basis between budget and actual to ensure that priorities are being met within approved expenditures. Effective financial management on a year by year basis that ensures minimal variances between budget and actual. The OFA also retains its surplus which can act as a source of funds to meet non salary related expenses upon approval from the Ministry of Finance.
Risk Category: WORKFORCE					
RISK AREA: Workforce: Operational Workforce Risks.					
Employee Fraud Primary Accountability: Finance and Treasury Division	Risk that losses will be incurred because an employee is dishonest.	<u>LOW</u> The likelihood is <u>low</u> due to stringent internal controls and systems that cannot be easily circumvented.	<u>MEDIUM</u> The impact is deemed to be <u>medium</u> resulting in an overall low risk assessment.	<u>LOW</u>	Continue to communicate code of values and measures for disclosing wrongdoing to OFA staff. Strong system of internal controls, including segregation of duties, which are regularly reviewed by internal auditors as well as the Office of the Auditor General. While no material issues have been identified to date from these audits that essentially cover the full fiscal year, all audit recommendations have been implemented. Detailed and timely exception reporting with managerial oversight.
Human Resource Risk Primary Accountability:	Risk that highly trained and specialized staff will not be available due to resignations, retirements, turnover, inability to hire, lack of skills, illness, etc.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The issue has gained traction due to the disparity between pay scales in other agencies and pension funds	<u>EXTREMELY HIGH</u> The impact is deemed <u>extremely high</u> resulting in an overall high risk assessment.	<u>HIGH</u>	Hire qualified staff; develop and implement staff retention strategies with assistance from the OFA Board and Human Resources Committee, provide support and training, where feasible provide competitive salary and benefits, foster a good and efficient working environment and a culture that

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Each Hiring Division, with support from the Strategic Corporate Services Division		compared to their OFA counterparts. As a result, overall, the pool of applicants to positions at the OFA has diminished over the past few years. Although most positions have adequate backup and succession planning, there are some areas within the OFA that are tightly staffed and some positions are highly specialized which creates vulnerability. In addition, compensation constraints have limited the ability to adequately replace staff externally at comparable experience and skill levels.			recognizes and rewards merit, set out performance plans and monitor, recognize and value achievements, good communications and teamwork, and implement employee engagement strategies. Offer results-based pay for performance, and a comprehensive and flexible benefits package. Maintain unique compensation structure for A/XOFA positions. At the end of 2016, consistent with OPS compensation, salary increases occurred for certain OFA employees, and the OPS has announced a restructuring of its non-bargaining and management compensation to be implemented over a four-year period. It is too early to tell whether these changes are sufficient to reverse the recent trend of disappointing responses to positions advertised externally and an inability to attract qualified candidates for positions in the A/XOFA classification and others including those requiring accounting designations and specialized formal education in financial engineering and information technology or investment and corporate finance experience.

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Risk Category: INFORMATION TECHNOLOGY & INFRASTRUCTURE RISK AREA: Information and Information Technology (I & IT): The risk that information produced or used (e.g., performance data) is incomplete, out-of-date, inaccurate, irrelevant or inadequately protected from inappropriate disclosure. Risk that information or other technology (e.g., architecture, hardware, software) does not support business requirements, and/or does not support availability, access, integrity, relevance and security of data. Includes business continuity risk. Risk related to information or technology (e.g. upgrading or replacing of IT systems, etc.) Should include privacy and security risks.					
Privacy and security Primary Accountability: Strategic Corporate Services Division	Risk related to the agency's handling of sensitive/confidential information on behalf of the government Potential compromise of confidential information or personal data through identity theft, or unauthorized electronic or physical access of information	<u>LOW</u> The risk is considered low , as management ensures that staff are cognizant of the importance of information security.	<u>MEDIUM</u> The impact is deemed medium , resulting in an overall low risk assessment	<u>LOW</u>	Access to all electronic data requires authentication. Security of electronic and hard copy information is provided by enterprise IT perimeter security solutions, key card locked main doors, safes, and security cameras. Third Party Security Assessment audits are completed on a regular basis, including audits of electronic and physical security. Security policies are also in place and all staff are required to comply. New staff who work on the government's Budget are provided with training on the importance of budget security.
Business continuity Primary Accountability: Strategic Corporate Services Division	Risk that the processes in place to ensure that critical I&IT systems are not available for operation to support business requirements (disaster recovery & business continuity planning)	<u>LOW</u> The risk is considered low , as the OFA has a comprehensive Business Continuity Plan (BCP) which is regularly tested.	<u>HIGH</u> The consequences for the OFA not being able to carry out its business, even for one day, would be severe, therefore its impact is deemed high . As a result, the OFA maintains a twin of its IT infrastructure in a separate disaster recovery location (DR Site), which reduces the overall assessed risk to medium.	<u>MEDIUM</u>	As part of the OFA BCP, Strategic Corporate Services Division (SCSD) ensures that all critical systems, information and IT infrastructure are highly available and replicated to the OFA's DR Site. Critical production systems are routinely run out of the DR Site in order to verify the system operates properly in the BCP environment. Furthermore, SCSD maintains the technical infrastructure to support the OFA decentralized recovery plan. This includes mobile devices and remote access services. Periodic drills are held to ensure that staff are able to use the OFA's BCP infrastructure in a productive manner.

Risk Element or Classification	Identification of Risk / Risk Description	Likelihood and Rationale	Impact and Rationale	Overall Assessment of Risk Element	Mitigation Strategy
Procurement Primary Accountability: Strategic Corporate Services Division	The procurement process has intensified in the past year causing significant project delays. The workload required to manage the process has not been offset with additional resources, annual budgeting has been impacted as projects timelines are difficult to determine and the organization is challenged to keep pace with changes in technology.	<u>MEDIUM</u> The likelihood is deemed <u>medium</u> . The OFA operates within the government procurement framework, adapted to its own unique requirements. The requirement to adhere to complex public sector procurement rules, as set out in the OFA's Procurement Policy has the potential of slowing down urgently needed IT infrastructure, creating a degree of risk. Some streamlining of the process has been carried out, reducing the assessed risk to medium.	<u>MEDIUM</u> The impact is deemed <u>medium</u> , resulting in a medium overall risk assessment	MEDIUM	Standardized approval forms and RFX (Request for Information, Proposal or Quotation) precedent templates streamline the procurement process. Establishing Service Level Agreements within the organization to ensure consistent timelines for document review and approvals will help ensure project deadlines are achieved. When project and procurement plans are hindered by lengthy standard procurement process, priorities will be revisited. In some circumstances, CEO approval of an exemption or a different process may be requested, if available.

ENVIRONMENTAL SCAN

Economic Conditions

The economic outlook for Ontario as described below is based on the average private sector view as of January 2017. As with all projections, there are positive and negative risks to the outlook. The most significant immediate risks to the outlook are rising interest rates and uncertainty regarding future U.S. economic policy. For business planning purposes, the OFA recognizes that it may confront increased demands to provide financing and other services.

Ontario's economy continues to grow in an uncertain global economic environment. Ontario real GDP increased 2.5 per cent in 2015. Private-sector forecasters, on average, estimate Ontario real GDP will grow by 2.6 per cent in 2016, 2.3 per cent in 2017, 2.2 per cent in 2018 and 2.0 per cent in 2019. The economic outlook is influenced by external factors, such as U.S. economic growth, oil prices and the Canadian dollar. Steady growth in the U.S. economy, along with the ongoing impacts of a more competitive Canadian dollar and low oil prices, continues to support Ontario's economic growth. Ontario's economy is expected to strengthen as growth broadens across major sectors of the economy, including household spending and exports. The recent increase in interest rates and the uncertainty tied to U.S. trade policy represents a downside risk to the Ontario economic outlook.

The United States is Ontario's largest trading partner, accounting for 80 per cent of the Province's international merchandise exports in 2015. Economic growth in the U.S. strengthened to 2.6 per cent in 2015 after rising by 2.4 per cent in 2014. According to the January 2017 Blue Chip consensus outlook, the U.S. economy is expected to grow by 1.6 per cent in 2016, 2.3 per cent in 2017 and 2.4 per cent in 2018.

The price of WTI (West Texas Intermediate) crude oil fell by over 70 per cent from its June 2014 peak of \$108 US per barrel to below \$30 US per barrel in early 2016, a reflection of strong supply and weaker global demand. WTI oil prices averaged \$43 US per barrel in 2016, down from \$49 US per barrel in 2015. The recent agreement between the Organization of the Petroleum Exporting Countries (OPEC) and other oil producers to reduce output has led to a rise in the price of oil. The current private-sector forecast average for the WTI price of oil is \$54 US in 2017 – well below levels recorded over the 2010-14 period.

Sharply lower oil prices and diverging monetary policy between Canada and the United States contributed to a depreciation of the Canadian dollar to an average of 78.2 cents US in 2015, down from 90.5 cents US in 2014. The Canadian dollar declined further in 2016, averaging 75.4 cents US. On average, private-sector forecasters expect the Canadian dollar will average 74.5 cents US in 2017.

Ontario's housing market continued to strengthen in 2016 alongside solid increases in the number of households and incomes. Sales of existing homes and resale prices rose 9.4 per cent and 15 per cent, respectively in 2016. Ontario housing starts also increased in 2016. Private-sector economists expect a soft landing in the Ontario housing market. Home resales and prices are projected to stabilize over the next few years as gradually rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand.

There are risks surrounding the housing market outlook. Home price gains in Ontario have outstripped incomes in recent years, fuelling mortgage debt accumulation. As a result, affordability in Ontario's housing market has eroded. Despite historically low mortgage rates, monthly carrying costs are elevated relative to long-term trends. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable in the event of an adverse economic shock.

Financial Markets

Moderate economic growth and headline inflation still operating below the 2 per cent target has prompted the Bank of Canada to hold the target overnight rate at 0.5 per cent since mid-2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.

In the United States, the Federal Reserve raised rates at its December 2016 meeting, citing a strengthening labour market and rising inflation. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, monetary policy in the European Union remains highly accommodative. In January, the European Central Bank announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases."

In Canada, while long-term interest rates are expected to remain at historically low levels, they are projected to gradually rise over the next few years. The expected onset of interest rate hikes by the U.S. Federal Reserve combined with the result of the recent U.S. election has already put upward pressure on Canadian bond yields.

According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018.

The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

Government Initiatives

Government policy developments and financial performance in Ontario's electricity sector, including OPG, Hydro One and municipal electricity utilities, may affect borrowing requirements through the cash flows to OEFC. In particular, the Province's ongoing effort to broaden ownership of Hydro One will result in large cash flow impacts for OEFC.

The OFA will continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program. The OFA will lead the implementation of the Trillium Trust, for dedicated net revenue gains from qualifying asset sales to help fund infrastructure investments across Ontario. The OFA will also provide financial support to the Ministry of Environment and Climate Change in respect of the government's Cap and Trade program, as well as in the establishment of a Greenhouse Gas Reduction Account and a climate change agency.

The OFA will also provide financial analysis and advice in support of the Province's commitment to unlock the value of designated assets, and will continue to work with Infrastructure Ontario and other areas of government on optimizing certain holdings in the Province's real estate portfolio, in particular, the sale of OPG headquarter properties, as well as Seaton and Lakeview lands.

Regulatory Compliance

The OFA will ensure that information required to be disclosed by the Province in its debt securities offerings related documents, periodic published reports (including the Ontario Budget, the quarterly finances, the Public Accounts of the Province of Ontario and the annual fall Economic Outlook and Fiscal

Review) and other disclosures filed or submitted under applicable securities legislation, rules and regulations in the United States, the United Kingdom, Luxembourg, Australia, Switzerland and Singapore is filed on time and otherwise in accordance with those requirements. Regulatory requirements will be monitored continually to ensure the Province has ongoing access to these markets.

PERFORMANCE MEASURES

1. Execute the Province's borrowing program

Objective	Performance Measure	Target
a. Complete the borrowing program while ensuring that the Province always has adequate liquidity.	Sufficient liquidity on hand at all times to ensure the Province can meet its financial obligations. Ensure borrowing is completed with minimal negative impact on the Province's reputation in the financial markets.	Borrowing program completed and cash requirements met on a timely basis.
b. Manage the borrowing program in a sound and cost-effective manner.	The performance measurement of the timing of the long-term fixed-rate borrowing program is expressed as a percentile ranking of the all-in borrowing cost against a statistical distribution of benchmark interest rates observed throughout the year.	Achieve a percentile ranking of 45 to 55 for regular borrowings and 50 to 75 for strategic foreign borrowings. All results are validated by the Ontario Internal Audit Division.
c. Ontario Savings Bonds (OSB) Program	Fund borrowing requirements at cost-effective rates for a broadly based retail program which allows individual investors in Ontario to participate in providing funding to the Province. OSBs reduce other borrowing requirements which, in turn, reduces pressure on new issue spreads.	Ensure the program is cost-effective in the context of a retail borrowing program. Maintain and review Service Level Agreement between OFA and Fiscal Agent on an annual basis.

2. Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook

Objective	Performance Measure	Target
a. Manage outstanding debt in a sound and cost-effective manner.	Dollar savings of debt management transactions on a realized and mark-to-market basis. This methodology utilizes a risk-budgeting approach adopted by some large pension plan investment managers.	Achieve first quartile performance relative to a risk budget. Results are validated by the Ontario Internal Audit Division.
b. Preservation of capital on money market investments.	Credit losses on liquid reserves and investment portfolio of funds managed for other government bodies.	No credit losses on any investments. Generate actual returns that are within ± 2 basis points of the

Objective	Performance Measure	Target
Manage liquid reserves in a sound and cost-effective manner.	The investment return on the portion of liquid reserves invested in Government of Canada Treasury bills and similar riskless instruments compared to an average 61-day portfolio benchmark. This benchmarking process is consistent with private sector industry practice. Maintain liquid reserve levels within a pre-determined range and provide an explanation to the Board of any deviations from that range.	61-day benchmark portfolio. Results are validated by the Ontario Internal Audit Division.
c. With OPG, prudently manage the Used Fuel and Decommissioning Segregated Funds' investments.	Ensure investment management is consistent with ONFA objectives.	Manage, monitor, and analyze the performance of the funds and the performance of investment managers. Continue refinement of investment strategies, risk management, policies and procedures. Meet the real return objective of 3.25 per cent, and exceed the market benchmark over the life of the funds.
d. Prudently manage funds for government bodies through the centralized/ segregated fund initiative.	Reduce investment costs. Ensure public bodies' funds are managed consistently with investment industry best practices.	Establish and continue to efficiently manage segregated funds with government public bodies that meet client requirements.
e. Minimize financial risk by ensuring risk exposures and program losses remain within approved exposure and loss limits.	Foreign exchange exposure. Net interest rate resetting exposure. Interest on debt losses as a percent of budgeted interest on debt. Credit exposures relative to approved policy limits.	Foreign exchange exposure not to be above five per cent of total debt. The 2016–17 Financing, Debt and Electricity Management Plan had an approved range of 0 per cent to 2.5 per cent in Foreign Exchange Exposure. Currently, the exposure of 0.3 per cent of debt. The 2017–18 Financing, Debt and Electricity Management Plan will have a recommended range subject to Board of Directors approval later in the year. Net interest rate resetting exposure not to be above 35 per cent of total debt. The 2016–17

Objective	Performance Measure	Target
		Financing, Debt and Electricity Management Plan had an approved range of 10.4 per cent to 14.4 per cent in Ontario's Gross Floating Rate exposure, with a target of 12.4 per cent. Interest Rate Resetting Exposure is expected to be 11.2 per cent as of March 31, 2017, with an expected range of 9.2 per cent to 13.2 per cent. A new range and target for Floating Rate and Interest Rate Resetting Exposure will be approved in the 2017–18 Financing, Debt and Electricity Management Plan. IOD losses not to exceed three per cent of budgeted Interest on Debt. Credit exposures to be kept within approved policy limits.
f. Use risk control policies to ensure programs are managed in a prudent and cost-effective manner.	Risk management policies are kept current with industry best practices. Exposure limits established in the policies are reasonable and prudent. Exposures are monitored and reported in a timely and accurate manner.	Policies for market risk, credit risk, use of derivatives and other financial instruments and risk management reporting are to be reviewed annually, and amendments or decisions not to amend are to be approved by the Board of Directors. Review limits on net interest rate resetting, foreign exchange and credit exposures, and credit concentration. Calculate and report exposures daily. Perform monthly stress testing on the Province's market and credit exposures.
g. Measure and report performance of the Province's borrowing, debt management, and investment programs.	Timeliness and accuracy of performance measurement and reporting.	Report on borrowing and debt management performance daily, and on the money market program performance monthly.

Objective	Performance Measure	Target
h. Evaluate the potential impact of stressed capital market conditions on OFA programs and IOD.	Conduct stress tests of the credit exposures, and IOD, and report the results as described in the risk management policies.	Stress testing is performed and reported on a monthly basis as described in the risk management policies.
i. Forecast interest on debt (IOD) for the Province and the OEFC.	Forecasts for the current year and medium-term are provided for the Budget, Fall Statement and quarterly finances.	IOD forecasts for the current year and medium-term to be provided for the Budget, Fall Statement and quarterly finances in a timely manner.
j. Assess the credit quality of municipalities and other approved entities applying for Infrastructure Ontario loans and provide credit risk advice to the Credit Review Committee (CRC)	Review loan applications and analyze reports. Attend CRC meetings to provide advice and vote on each application.	Provide an advisory role at Infrastructure Ontario's CRC meetings.
k. Contribute to key ministry documents, including the Budget, Fall Statement, and quarterly finances; and advise on financial implications of government initiatives.	Advise on potential financial/treasury implications of government initiatives on IOD, borrowing objectives, credit ratings, and financial markets' reactions. Complete the Borrowing and Debt Management chapter, including the Financing Table, in the Budget and Fall Statement.	Ensure potential financial/treasury implications are considered in developing government financial objectives, including meeting the requirements of the <i>Fiscal Transparency and Accountability Act</i>. Provide the Borrowing and Debt Management chapter in the Budget and Fall Statement; and update Ontario's Financing Program in Ontario Finances (quarterly).

3. Manage key financial relationships

Objective	Performance Measure	Target
a. Manage Ontario's relationships with domestic and international investors.	Maintain dialogues with investors, investment dealers and the international investment community by providing timely financial updates, including investor publications and securities filing documents.	Continue to monitor fixed income markets, economic conditions, and investors' interests and requirements to ensure road shows are effective for both the Province and its investors. Investor Relations to continue to track meeting activity with investors. Program benchmarks to include number of meetings with new accounts, effectiveness of communications material and website usage. Provide IR information products, including updates to the OFA website, on a timely basis. Meet ongoing disclosure and regulatory filing requirements with the SEC, UKLA, LuxSE, ASX, SIX Exchange Regulation and the SGX. Provide panelists or speakers at domestic and international industry conferences.
b. Manage Ontario's relationships with the credit rating agencies.	Ensure that credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these in their reports and decisions.	Following the release of the Budget, senior OFA and Ministry of Finance staff will meet with the rating agencies. Throughout the year, agencies will be kept informed of the government's ongoing economic and fiscal progress.
c. Manage Ontario's relationships with banks, financial services providers, and investment dealers.	Maintain relationships with banks, financial services providers, and investment dealers who provide the Province with banking, underwriting, custodial and fiscal agency services, thereby maintaining the Province's reputation and supporting its strategic direction to provide financial and cash management services. Maintain relationships with swap counterparties.	Ensure banking, underwriting, custodial and fiscal agency services provided to the OFA are cost-effective with minimal impact on IOD. Promote Toronto as a global financial centre. Ensure compliance with existing collateralized swap agreements in a timely and accurate manner on a daily basis. The OFA will endeavour to enter into collateralized swap agreements with more swap counterparties to limit credit risk.

4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services.

Objective	Performance Measure	Target
a. Arrange OPS-wide cost-effective banking services that minimize the Province's expenditures.	Acquire cost-effective banking products and services to support government ministries' program delivery, Crown agencies' banking activities and OFA's debt and investment management activities through the government's tendering process.	Issue, award and implement tenders for banking and financial services to ensure service continuity and program area needs are met. Monitor vendors' post-implementation performance. Work with central agencies, ministry program areas, and financial service providers to increase take up of existing electronic payment mechanisms and identify industry trends and new banking technology, which can be leveraged to reduce costs and improve service delivery and back-office processes. Ensure continued compliance with mandatory requirements imposed by external parties such as Federal bodies and industry groups. Participate in government and industry working groups/task forces on developing innovative solutions to enhance banking and payment efficiencies. Provide comprehensive and timely banking advice to program areas and agencies supporting government initiatives.
b. Provide centralized cash management services that maximize liquid reserves returns.	Ensure the provision of timely and accurate cash information for the development of the Financing Table in the Annual Budget and Fall Economic Statements. High service standards on service contracts with client agencies to maintain client satisfaction.	Provide actual and forecast liquid reserve numbers for the Financing Table in the Province's Quarterly Statements and Annual Budget that stand up to scrutiny by internal and external stakeholders. Ensure relevant performance measures in client agency agreements are met or exceeded.

Objective	Performance Measure	Target
c. Timely and accurate forecasts to align borrowing with cash management requirements, helping to reduce IOD.	Reliable and accurate cash forecasts for the Province and client agencies.	Ensure that the Province has sufficient cash available at all times to meet its financial obligations. Continually enhance the Cash Management System, keeping it responsive to changing needs, technology, and the IT environment within the OPS, i.e. IFIS renewal and Hyperion.
d. Advocacy of best practices in cash management across the OPS	Policy advice where required to assist programs in complying with the Cash Management Directive.	Improved compliance with the Cash Management Directive; implementation of policies more in line with best practices.
e. Provide efficient, accurate and timely settlement and payment processes, and implement appropriate settlements industry best practices.	Ensure debt management, investments, derivatives, and loans are recorded and processed efficiently and accurately. Ensure that ITS, the OFA's system of record for debt, derivatives, and assets, continues to operate effectively. Adoption of industry best practices.	Make system and procedural enhancements to improve the efficiency and effectiveness of settlements' functions, and continue to mitigate operational risk. Replace the Public Bodies Financing System with a user friendly and efficient system that is either developed internally or sourced externally.
f. Provide timely and accurate financial reporting for the Province in relation to debt, derivatives and investments, and the agency financial statements.	Ensure security and proper records of transactions. Provide high quality financial information for publication in a timely and accurate manner.	Enhance internal controls on accounting records by applying best practices and staff training. Prepare internal reporting to ensure data integrity. Through research and continuous review, ensure that accounting records and financial reporting are prepared in accordance with applicable PSAB requirements. Provide timely and accurate information for the Province's Budget, Estimates, quarterly Finances and Public Accounts. Provide timely and accurate agency financial statements that pass the scrutiny of the OFA Board and its Audit and Risk Management Committee as well as the Office of the Provincial Auditor General.

Objective	Performance Measure	Target
g. Monitor and assess accounting developments that affect the financial reporting for the Province and its agencies.	Keep abreast of current accounting developments in various jurisdictions: the International Accounting Standards Board (IASB), the Financial Accounting Standards Board in the U.S. (FASB), and the Accounting Standards Board and the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.	Continue to monitor developments in accounting standards set by PSAB and other standard setting bodies that may affect the Province and agency reporting. Provide advice to the Office of the Provincial Controller, on developments in accounting standards that impact debt and related areas. In coordination with other provinces, actively bring the collective concerns of Ontario and the other provinces on the Financial Instruments standard to PSAB. Continue to liaise effectively with the Office of the Provincial Controller and the Office of the Auditor General of Ontario in making recommendations and/or responses on PSAB's review of these standards.

5. Advise on and implement corporate and electricity finance projects and policies

Objective	Performance Measure	Target
a. Provide financial analysis and advice on financing and other proposals that have capital markets implications. Develop the structure and negotiate the detailed terms and conditions of any transactions to minimize costs and best meet market expectations.	Cost-effective leasing policies and structures. Appropriate due diligence on financing aspects of asset management projects. Comprehensive advice on structuring and completing financial transactions. Accurate determination of value for money benchmarks and evaluating and recommending interest rates.	Comprehensive, timely and accurate advice to support objectives. OFA to be viewed across the government as a centre of excellence in financial analysis and providing high quality financial advice.
b. Provide financial analysis and advice on cost-effective borrowing, investing, and risk management by public bodies. Negotiate the detailed terms and conditions of any loans to be guaranteed to minimize costs and	Borrowing and investing through financial markets as cost-effectively as possible and within appropriate risk management frameworks for each client.	Comprehensive, timely and accurate advice to consolidated public bodies.

Objective	Performance Measure	Target
best meet market expectations.		
c. Provide financial analysis and advice on transactions requiring a provincial guarantee or that may otherwise increase the indebtedness or contingent liabilities of Ontario.	Comprehensive, accurate and timely review and identification of risks and potential risk mitigation strategies.	Comprehensive, timely and accurate advice as required.
d. Provide analysis and advice on electricity policies and initiatives that have potential financial, fiscal, and/or economic implications on the Province and/or OEFC.	Early identification and development of options to effectively deal with opportunities, pressures and/or risks to the Province or OEFC.	Comprehensive, timely and accurate analysis and advice, as required, including on the following: • Electricity supply, conservation, transmission, distribution and other electricity price mitigation initiatives. • Nuclear supply, including nuclear refurbishments. • Ongoing implementation of the ALGP. • Ongoing implementation of IEI program, ICI, NIER program, and the OREC.
e. Analysis and modelling to support the OEFC's objectives, including monitoring of OPG and Hydro One results.	Concise, accurate and timely reports and briefings as required.	Provide analytical and modelling support, as required, for the OEFC annual audit and reporting process. Continue regular financial update meetings with OPG to monitor financial performance. Provide required analysis to support management of NUG contracts (e.g., contract/rate negotiations, and NUG litigation.)
f. Provide electricity sector projections for the Province and the OEFC.	Ensure projections are provided in a timely manner, using best available information and reasonable assumptions.	Provide projections for the current year and medium-term for the Province's Budget, Fall Statement and quarterly finances; as well as projections for OEFC on an annual and quarterly basis. Provide regular updates on projections versus plan.

Objective	Performance Measure	Target
g. Analysis and advice to support the effective administration of ONFA, including approving annual budgets, monitoring fund balances, managing the Provincial Guarantee provided to the Canadian Nuclear Safety Commission (CNSC), and monitoring policies and other initiatives related to nuclear liabilities.	Comprehensive and appropriate due diligence performed on annual budgets, reference plans, disbursements and financial documents.	Review and approve annual budgets, including investment related expenses, change requests, and disbursements as per ONFA timelines. Ensure budgets are consistent with approved reference plans and only eligible costs are funded. Ensure fund flows follow ONFA requirements through audits and review of financial documents. Review and monitor plans and projects related to managing nuclear liabilities for decommissioning and waste management. Monitor and review the ONFA Reference Plan and the required level of the Provincial Guarantee to the CNSC as nuclear liability estimates are revised and as segregated funds change in value. Provide analysis and advice on OPG's contribution schedules and the Provincial Guarantee that is provided under ONFA to the CNSC.
h. Provide advice, as required, on evaluating the Province's assets, including investments in its business enterprises and analysis and advice on optimisation to enhance efficiency and maximize value.	Ensure required analysis, advice, and briefings are comprehensive, timely and accurate.	Provide timely and highly reliable financial advisory services as required, including modeling, option development, and the identification of key considerations to support OFA, Ministry of Finance and Provincial decision-making. Provide financial analysis and advice related to the Province's holdings of Hydro One shares and the sale/merger of Hydro One Brampton. Provide analysis and advice related to optimizing the Province's real estate portfolio, in particular the sale of OPG headquarters properties, Seaton and Lakeview lands.

Objective	Performance Measure	Target
i. Provide financial analysis and advice on corporate issues and initiatives	Ensure required analysis, advice, and briefings are accurate, timely, and comprehensive.	Provide expert financial analysis and advice as required, including modeling proposals and structuring transactions. OFA CEO, or delegate, participation and leadership on Boards and Committees overseeing these initiatives.

6. Ensure the successful activation of OFA's decentralized Business Continuity Plan

Objective	Performance Measure	Target
a. Review and update the Corporate BCP framework and business unit plans.	Business units being able to successfully complete their identified critical time-sensitive tasks from decentralized locations.	Maintain staff awareness and readiness to implement the Corporate and business units' plans to meet business requirements in the event of a business disruption. Conduct and assess periodic BCP tests.

HUMAN RESOURCES

Staff allocation for 2016–17 is 166 positions, or full-time equivalents (FTEs), excluding leaves of absences. Between 2007–08 and 2016–17, the borrowing program is projected to increase by 32 per cent, from \$18.0 billion to \$23.8 billion, and the Province's net debt is projected to increase by 103 per cent, from \$156.6 billion to \$317.9 billion. The OFA's operating costs (forecasted) increased by 20 per cent, from \$22.5 million to \$27.1 million, and FTEs dropped by three per cent, from 172 to 166.

The OFA continually reviews its recruitment and retention strategies to ensure it is able to attract and retain qualified staff. Some of the initiatives that have been implemented include supporting flexible work arrangements, and implementing diversity, inclusion and accessibility strategies. Approximately 85 per cent of the OFA is on the government compensation plan, which is controlled centrally. All but five positions are excluded from collective bargaining.

The OFA will continue to work with the Human Resources and Governance Committee of the OFA Board and the Ministry of Finance Human Resources Branch to develop further initiatives to promote staff retention and skills development. The OFA will also continue to work with the OPS Recruitment Centre to enhance the OFA's ability to attract qualified candidates. This will ensure the OFA can meet its current and future business priorities. Initiatives may include providing opportunities for staff to participate in learning and development courses, job shadowing, secondments, and special projects to the extent feasible to enable continuous learning and enhance succession planning.

FINANCIAL BUDGET

OFA Multi-Year Operating Expenditure Forecast

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Salaries	19,055	19,055	19,876	20,273	20,679
Benefits	2,195	2,195	2,299	2,345	2,392
ODOE	5,802	5,802	5,352	5,412	5,513
Sub-total Cash DOE	27,052	27,052	27,527	28,030	28,584
Add: Amortization	881	863	789	764	786
Less: Capital Expenditure	(865)	(865)	(817)	(785)	(795)
Direct Operating Expense	27,068	27,050	27,499	28,009	28,575

Staffing levels are forecast to remain at 166 positions (FTE basis) over the planning horizon.

The tables and financial statements included in this document have been prepared on an accrual basis of accounting to correspond with the OFA Financial Statements.

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

OFA - Income Statement Projections

<i>(in thousands of dollars)</i>	2016–17		Forecasts*		
	Budgeted	Interim Forecast	2017–18	2018–19	2019–20
Revenue					
Interest Revenue	3,003	3,067	3,305	2,847	2,715
Cost Recovery from the Province	22,207	22,206	22,640	23,034	23,485
Cost Recovery from agencies /related parties	4,861	4,844	4,859	4,975	5,090
Total	30,071	30,117	30,804	30,856	31,290
Expenditure					
Operating Expense	27,068	27,050	27,499	28,009	28,575
Total	27,068	27,050	27,499	28,009	28,575
Net Income	3,003	3,067	3,305	2,847	2,715

*Forecasts represent the submission through 2017–18 Program Review, Renewal & Transformation (PRRT) process to the Treasury Board. Subject to Treasury Board approval.

STRATEGIC CORPORATE SERVICES

Strategic Corporate Services Division (SCSD) is accountable for delivering robust Information Technology, Strategic Human Resources Management, Records and Information Management, Procurement and Policy Management, Facilities Management and Physical and Cyber Security Services. Enhancements to each of these areas drives efficiency, auditability and consistency throughout the organization. SCSD ensures the OFA's and OEFC's core business objectives are supported by reliable, dedicated, customized and integrated technology infrastructure, business applications, administrative process and access to external real-time data sources.

A major focus of SCSD is to support the OFA's core operational business processes. By actively assessing and adjusting the underlying functions that enable the day-to-day business needs, SCSD is able to provide streamlined solutions that increase the safety and wellbeing of the staff, further the OPS Diversity and Inclusion commitments, and provide transparency into procurement and human resource activities.

In addition, reliable and secure information technology is essential to the OFA's ability to deliver its mandate. To that end, SCSD strives to ensure that business applications and related services are not down more than four times a year for a period greater than 30 minutes for each occurrence during normal business hours. The OFA's financial business functions are powerfully supported by SCSD's technology infrastructure, providing availability, integrity, security, and capacity via high-performance, highly-redundant systems at a competitive cost. SCSD can effectively deliver and maintain state-of-the-art financial systems and services because of OFA's internal management of information technology.

The following initiatives will be carried out over the next three years to support the OFA's strategic direction and objectives:

Initiative	Duration	Contribution to key OFA activities
Automate and enhance structured, processes across the organization such as Asset and Inventory Management.	2017–18	Address the organization's increased focus on procurement practices.
Increase the effective management and delivery of IT projects through centralized, standardized processes and controls.	2017–18	Continue to enhance delivery and effectiveness of resources in project management efforts. Support OFA objectives in the delivery of technical initiatives.
Expand core systems to track new government initiatives, allow for greater flexibility in hedge portfolio group splitting, strengthen bond and swap pricing modules and Implement applicable changes as per financial and regulatory reform requirements.	2017–19	Support a large borrowing program and the corresponding large volume of associated hedging activity; provide flexibility to support the commodities hedging program conducted by the OFA for Metrolinx; and the continuation of new government initiatives, including Ontario Green Bonds, and the Trillium Trust.
Through iterative enhancements to technology and policy, ensure the security of information assets and infrastructure across multiple platforms.	2017–19	Address increased requirements for integrated communication solutions as well as data anytime, anywhere. Enhance support for the OFA's BCP.

Creating and enhancing OFA business dashboards to gain increased insight and enhance trading and portfolio management information.	2017–19	Provide OFA executives with timely information to support treasury and borrowing program activities.
Creating and enhancing KPIs and dashboards, reporting mechanisms to measure the performance of delivered corporate services.	2017–19	Provide OFA executives with timely information to support business activities.
Continuous IT infrastructure improvement that will enhance performance, increase capacity, and make the OFA's computing solution highly available.	2017–19	The OFA's financial business functions are well supported by its robust IT infrastructure, which is essential for the OFA to carry out its mandate.
Continuous IT security improvement that will ensure the integrity of the OFA's IT network and prevent any unintended data loss or unauthorized access. Review, revise, and develop IT policies and procedures based on emerging business or technology requirements.	2017–19	The OFA is proactive in ensuring that its systems are highly secure.
Continuous IT service delivery enhancement that will improve the process of incident management, change management, and problem management. Implement SCSD Service Catalogue and Configuration Management Database (CMDB).	2017–19	The OFA's financial business functions are well supported by various IT Services. A better service delivery framework is essential to deliver IT Services professionally and on a timely basis.
Streamline procurement through a centralized, process-driven methodology.	2017–20	Provides clear accountability, auditability and transparency.
Implementation of an Information Management Strategy that transitions the treatment of information from 'data' to an 'asset'.	2017–20	Promotes the retention of corporate knowledge within the organization.
Continuous Enterprise Project and Portfolio Management that will improve the ability to track, report and deliver on business and technology initiatives.	2017–19	Provides clear accountability, auditability and transparency.

INITIATIVES INVOLVING THIRD PARTIES

There are no third parties, other than the provincial government, with which the OFA is partnering or with which it has a funding relationship for the purpose of delivering OFA programs. Moreover, the OFA does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

IMPLEMENTATION PLAN

For 2017–20, the OFA intends to implement its business plan using existing resources and allocations.

COMMUNICATION PLAN

Business Plan

The OFA Business Plan serves as an internal tool for management and staff in the development of program plans and, through the regular reporting of the status of initiatives to the Board of Directors, it serves as a performance measurement tool. The plan also communicates the OFA's business objectives to the Minister of Finance and the Ministry.

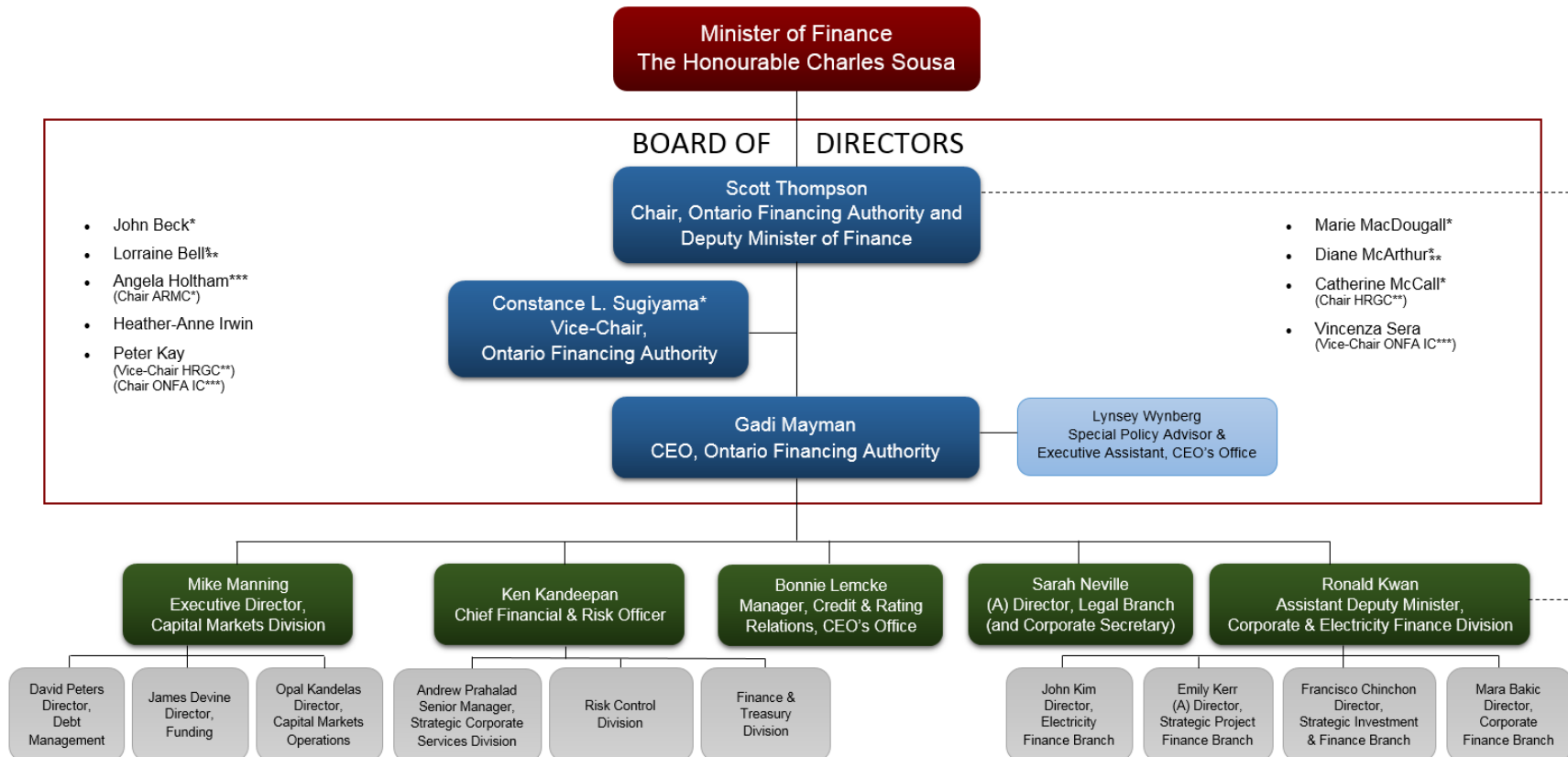
Other Communications

The OFA has a number of external stakeholders, including institutional and retail investors, investment dealers, banks, and credit rating agencies. In 2017–20, the OFA will communicate with stakeholders using various methods including:

1. Websites (including expense information): www.ofina.on.ca; www.ontariosavingsbonds.com; www.ofina.on.ca/algp;
2. Budget and quarterly updates: develop borrowing and debt management components;
3. Fact sheets, investor relations presentations, and other investor material (available on the website);
4. Annual Report (as required by the *Capital Investment Plan Act, 1993*);
5. Regulatory filings;
6. Business Plan; and
7. Memorandum of Understanding (MOU).

Other methods of communication to be used throughout the year are investor relations meetings and regular discussions with credit rating agencies. In addition, the OFA is responsible for the development of communications vehicles for OEFC and will continue to maintain the OEFC website, www.oefc.on.ca, and to produce the OEFC annual report.

ORGANIZATIONAL CHART



* ARMC = Audit & Risk Management Committee

** HRGC = Human Resources & Governance Committee

*** ONFA IC = Ontario Nuclear Funds Agreement Investment Committee

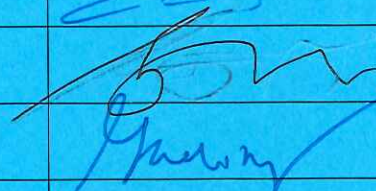
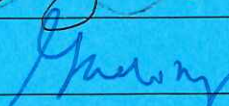
General Information

Item 2017-20 Ontario Financing Authority (OFA) Business Plan		Deputy Minister's Office Contact
Division Ontario Financing Authority		Branch Investor Relations
Date Prepared Feb. 21, 2017		Prepared By Serena Ly
Minister's Approval Required ☒ Yes ☐ No	Date Approval Required	Return To Christina Zhang (416) 325-8032

Description

OFA Board of Directors approved the 2017-20 Business Plan on February 10, 2017.

Standard Approvals

Title	Name	Signature	Date
Manager	Erica Wieder		Feb. 21, 2017
~~Director~~ Chief Financial & Risk Officer	Ken Kandeepan		Feb 22/17
Chief Executive Officer	Gadi Mayman		Feb 22/17
Assistant Deputy Minister / CAO			
Deputy Minister	Scott Thompson		

Supplemental Approvals

Area	Name	Signature	Date

Comments

Deputy Minister's Office Tracking

File Name	File Location
Key Words	

Ontario Financing Authority

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Téléc. : 416 325-8005



February 21, 2017

MEMORANDUM TO:

Scott Thompson
Deputy Minister of Finance
Chair, Ontario Financing Authority

FROM:

Gadi Mayman
Chief Executive Officer, Ontario Financing Authority

SUBJECT:

Ontario Financing Authority 2017–20 Business Plan

I attach the Ontario Financing Authority's (OFA) 2017–20 Business Plan for submission to the Minister for his approval.

The Agencies and Appointments Directive (AAD) requires provincial agencies to develop a Business Plan annually for a minimum three-year period. The Business Plan must be approved by the OFA's Board of Directors and the Minister of Finance. The Plan is considered valid only after the Minister has approved it by affixing his signature.

Treasury Board/Management Board of Cabinet (TB/MBC) may request the Minister submit the Business Plan for review by TB/MBC at any time.

When the Minister approves the OFA's Business Plan, the Business Plan becomes a document that the Minister and Ministry of Finance may use to hold the OFA accountable.

The OFA Board of Directors approved the OFA's 2017–20 Business Plan on February 10, 2017. It has also been reviewed by Ministry of Finance staff as required under the Treasury Board Secretariat (TBS) Guide to Developing Business Plans for Provincial Agencies.

I also attach a letter of transmittal for your signature to be forwarded with the 2017–20 Business Plan to the Minister for his approval.

Gadi Mayman

Attachments

Ministry of Finance

Frost Building South
7 Queen's Park Cr
Toronto ON M7A 1Y7
Tel.: 416 325-0400
Fax: 416 325-1595

Ministère des Finances

Édifice Frost sud
7 Queen's Park Cr
Toronto ON M7A 1Y7
Tél. : 416 325-0400
Télec. : 416 325-1595



February 21, 2017

MEMORANDUM TO: The Honourable Charles Sousa
Minister of Finance

FROM: Scott Thompson
Deputy Minister of Finance
Chair, Ontario Financing Authority

SUBJECT: Ontario Financing Authority 2017–20 Business Plan

Please find attached for your review and approval, the Ontario Financing Authority (OFA) 2017–20 Business Plan.

The Agencies and Appointments Directive (AAD) requires provincial agencies to develop a Business Plan annually for a minimum three-year period. The Business Plan must be approved by the OFA's Board of Directors and you. The Plan is considered valid only after you have approved it by affixing your signature.

Treasury Board/Management Board of Cabinet (TB/MBC) may request that you submit the Business Plan for review by TB/MBC at any time.

When you approve the OFA's Business Plan, the Business Plan becomes a document that you and the Ministry of Finance may use to hold the OFA accountable.

The OFA Board of Directors approved the OFA's 2017–20 Business Plan on February 10, 2017. It has also been reviewed by Ministry of Finance staff as required under the Treasury Board Secretariat (TBS) Guide to Developing Business Plans for Provincial Agencies.

Please sign the front cover of the attached Business Plan if you approve the OFA's 2017–20 Business Plan.

Scott Thompson

Attachment