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de l'électricité de l'Ontario
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Toronto ON M7A 1Y7

Ontario

December 12, 2016

MEMORANDUM TO: OEFC Board of Directors

RE: **NOTICE OF MEETING**
OEFC Board of Directors Meeting
December 16, 2016 @ 12:00 noon – 2:00 p.m.
Trillium Boardroom
Frost Building South, 7th Floor

This memorandum serves as notice of the above meeting. The agenda along with the materials for the meeting are posted on the Board Portal.

If you have any questions, please contact me at (416)325-8556 or Joan Dougherty, Board Coordinator, at (416)325-8833.

Mara Collins
Board Secretary
Encl

OEFC BOARD OF DIRECTORS MEETING

December 16, 2016 @ 12:00 noon. - 2:00 p.m.
Trillium Boardroom - Frost Building South, 7th Floor

Call in: (local) 416-212-8011; (long distance) 866-602-5461; (Conference ID) 2218108#

AGENDA

INTRODUCTORY ITEMS	TAB
1. Call to Order and Welcome of New Board Members (Chair) - Denise Dwyer - Maria Mavroyannis - Leah Myers - Sriram Subrahmanyan - Cindy Veinot	
2. Review of Agenda and Confirmation of Receipt of Meeting Material (Chair)	
3. Declaration of Possible Conflicts (Chair)	
4. Chair's Remarks (Chair)	
5. CEO's Report (Gadi Mayman) - Status of OEFC borrowing - Current issues or concerns - New directives - Compliance with directives	
DISCUSSION AND DECISIONS ITEMS	
6. Approval of Minutes of Meeting Held on September 23, 2016 and Signing of the Minutes by the Chair and Secretary of the Meeting (Mara Collins)	6
Report from the Audit Committee and Approval of Recommended Items	
7. Audit Committee Chair's Report	
8. Approval of OEFC Financial Statements for the Period Ended September 30, 2016 (Ken Kandeepan, Siva Nathan)	8
9. Approval of Revised Market Risk Policy (Ken Kandeepan)	9
10. Approval of the pay down of Provincial notes held by OEFC (Ken Kandeepan)	10
INFORMATION AND DISCUSSION ITEMS	
Business arising from minutes	
11. There were no business arising from the last minutes	
Reports Reviewed by Audit Committee	
12. Quarterly Report on OPG Finances (Mike Manning, John Kim)	12
13. Quarterly Program Status, Exposures and Results Report (Ken Kandeepan)	13
14. Quarterly Litigation Summary (Mara Collins)	14
15. Quarterly OEFC Procurement Report (no procurement to report) (Mara Collins)	

Other Reports

16. NUG and Electricity Report (Emily Kerr) **16**
17. Status Update on Impacts of Asset Optimisation on OEFC (Francisco Chinchon)
18. Quarterly Business Plan status report (Gadi Mayman) **18**
19. Legal Compliance Report (Mara Collins)

Administrative Items

20. Discussion of OEFC Annual Board Performance Evaluation **20**
21. OEFC Annual Certificate of Compliance (to be completed and handed to Secretary at December meeting) **21**
22. Future Agenda Items and Educational Initiatives
23. Other Business
24. Termination

OEFC BOARD OF DIRECTORS

Scott Thompson, Chair
Gadi Mayman, Vice-Chair
Denise Dwyer
Serge Imbrogno
Nancy Kennedy
Ronald Kwan
John Lieou
Murray Lindo
Maria Mavroyannis
Leah Myers
Sriram Subrahmanyan
Cindy Veinot

OEFC BOARD SECRETARY

Mara Collins - Legal Counsel

INVITEES

OFA Staff

Francisco Chinchon	- Director, Strategic Investment Finance Branch
Ken Kandeepan	- Chief Financial and Risk Officer, Finance and Treasury, and Risk Control Divisions
Emily Kerr	- Director (A), Strategic Project Finance Branch
John Kim	- Director (A), Electricity Finance Branch
Mike Manning	- Executive Director, Capital Markets Division
Siva Nathan	- Manager, Accounting and Financial Reporting - Agencies
Sarah Neville	- Legal Director (A)
Caroline Swerdlyk	- Legal Counsel

Ontario Internal Audit Staff

Gordon Nowlan - Director

Office of the Auditor General

Teresa Carello - Director
Jeremy Blair - Manager

Other

Kenneth Russell - Solicitor

OEFC BOARD OF DIRECTORS
RESOLUTION: December 16, 2016

Minutes of OEFC Board of Directors Meeting held on September 23, 2016

Resolved that:

> Minutes of the meeting of OEFC Board of Directors held on September 23, 2016, as presented to this meeting, are approved.

ONTARIO ELECTRICITY FINANCIAL CORPORATION
BOARD OF DIRECTORS MEETING
14TH FLOOR, ONE DUNDAS STREET WEST, TORONTO

SEPTEMBER 23, 2016 @ 11:15 A.M. – 12:00 P.M.

M I N U T E S

BOARD MEMBERS PRESENT

Gadi Mayman, Vice Chair
Nancy Kennedy
John Lieou
Ronald Kwan

BOARD MEMBERS ABSENT

Scott Thompson, Chair
Serge Imbrogno
Murray Lindo

INVITEES PRESENT

ONTARIO FINANCING AUTHORITY STAFF

Mara Collins	- OEFC Secretary and OFA Legal Counsel
Ken Kandeepan	- Chief Financial and Risk Officer
John Kim	- Director, Electricity Finance Branch, Corporate and Electricity Finance Division (CEFD) (A)
Sarah Neville	- OFA Legal Director (A)
Sandy Roberts	- Director, Strategic Project Finance Branch, CEFD
Caroline Swerdlyk	- Legal Counsel

Documents referred to by Tab number in these minutes were provided to Board members in advance of this meeting, unless otherwise noted.

1. Call to Order

In the absence of the Chair and Vice Chair, the Board members present chose Nancy Kennedy to act as the chair of the meeting.

Notice of the meeting having been duly provided to all Board members and a quorum being present, the chair of the meeting called the meeting to order.

2. Review of Agenda and Confirmation of Receipt of Meeting Material

The Board reviewed the agenda for the meeting. No changes were made to the agenda. The Board confirmed receipt of the meeting materials.

3. New Directives [Tab 5]

Mara Collins referred Board members to two Minister of Finance directives to OEFC dated July 17, 2016 and May 18, 2016 [Tab 5]. Mara Collins reviewed the directives with the Board.

4. Declaration of Conflicts

The chair of the meeting asked Board members if they had any conflicts or possible conflicts which had not been declared. No conflicts or possible conflicts were identified.

5. Approval of Minutes of Meeting held on September 14, 2016 [Tab 6]

The chair of the meeting referred Board members to the minutes of the OEFC meeting held on April 15, 2016 [Tab 6].

[The Vice Chair, Gadi Mayman, joined the meeting and assumed the role of chair of the meeting.]

The following change to the minutes was discussed and made by the Board:

- The following sentence was added to Item 9 (Other Business): "Diane McArthur advised this would be her final Board meeting, unless she was required to continue on the Board for quorum for the next Board meeting."

On motion duly made and seconded, the following resolution was unanimously passed:

RESOLVED that:

> Minutes of the meeting of OEFC Board of Directors held on September 14, 2016, as amended at this meeting, are approved.

6. CEO's Report

The CEO provided an update on the status of OEFC borrowing.

7. Approval of OEFC Financial Statements for the Period Ended June 30, 2016 [Tab 8]

The Vice Chair referred Board members to the financial statements of OEFC for the three months ended June 30, 2016 (the "Financial Statements") [Tab 8]. The Vice Chair of the Audit Committee, Nancy Kennedy, confirmed that the Audit Committee had met prior to the Board meeting and was recommending for approval the Financial Statements. It was noted that, on a going forward basis, Electricity Sector Dedicated Income (ESDI) may exceed estimates provided in the 2016 Budget.

[Sandy Roberts joined the meeting.]

[John Lieou withdrew from the meeting.]

On motion duly made and seconded, the following resolution was unanimously passed:

RESOLVED that:

> The financial statements of the OEFC for the period ended June 30, 2016, in the form presented to this meeting, are approved.

8. Approval of Revised Policy on the Use of Derivatives [Tab 9]

Nancy Kennedy referred Board members to the briefing note "Revisions to the OEFC Policy on the Use of Derivatives and Other Financial Instruments" dated September 23, 2016 and to the draft "Ontario Electricity Financial Corporation Policy on the Use of Derivatives and Other Financial Instruments" ("Policy") dated September 23, 2016 [Tab 9]. Nancy Kennedy confirmed that the Audit Committee had reviewed the Policy and was recommending it for approval.

On motion duly made and seconded, the following resolution was unanimously passed:

RESOLVED that:

> The Ontario Electricity Financial Corporation Policy on the Use of Derivatives and Other Financial Instruments, in the form presented to this meeting, is approved.

9. Approval of Revised OEFC Risk Management Reporting Policy [Tab 10]

Nancy Kennedy referred Board members to the briefing note "Revisions to the OEFC Risk Management Reporting Policy" dated September 23, 2016 and to the draft "OEFC Risk Management Reporting Policy – Borrowing and Debt Management Program" ("Policy") dated September 23, 2016 [Tab 10]. Nancy Kennedy confirmed that the Audit Committee had reviewed the Policy and was recommending it for approval.

On motion duly made and seconded, the following resolution was unanimously passed:

RESOLVED that:

> The OEFC Risk Management Reporting Policy, in the form presented to this meeting, is approved.

10. Business Arising from Minutes

The Vice Chair referred Board members to the briefing note "Global Adjustment Lawsuit" dated September 16, 2016. Sandy Roberts reviewed the note with the Board and answered questions.

11. Reports Reviewed by Audit Committee

The Vice Chair referred Board members to the following reports that had been reviewed by the Audit Committee at its September 23, 2016 meeting:

1. Quarterly Report on OPG Finances
2. Quarterly Program Status, Exposures and Results Report
3. Quarterly Litigation Summary
4. Quarterly OEFC Procurement Report

12. NUG Report [Tab 16]

Sandy Roberts referred Board members to the briefing note "OEFC Board Briefing NUG Update September 23, 2016" [Tab 16]. Sandy Roberts reviewed the note with the Board and answered questions.

[Gadi Mayman withdrew from the meeting. Nancy Kennedy resumed acting as the chair of the meeting.]

13. Future Agenda Items and Educational Initiatives

There were no future agenda or educational items identified.

14. Other Business

No other business was identified.

15. Termination

It was resolved that:

This meeting is terminated.

____
Vice Chair

____
Secretary

OEFC AUDIT COMMITTEE MEETING RESOLUTION
December 16, 2016 Meeting

Financial Statements for period ended September 30, 2016

Resolved that:

> The financial statements of OEFC for the period ended September 30, 2016, in the form presented to this meeting, are recommended to the OEFC Board of Directors for approval.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Unaudited Financial Statements

For the Six Months September 30, 2016

OEFC Financial Statements
For the Six Months Ended September 30, 2016

Statement of Revenue and Expense (compared to September 30, 2015)

Total revenue for the six months ended September 30, 2016 decreased by $103 million ($1,651 million vs. $1,754 million) when compared to the same period last year. The decrease was due to lower debt retirement charge of $155 million reflecting the end of DRC applied to residential consumers as of Jan. 1, 2016. Payments-in-lieu of tax (PILs) revenue decreased by a net $40 million primarily due to the absence of Hydro One PILs (compared to $67 million in 2015), partially offset by an accrual of $13 million from the Province for Hydro One Inc.'s estimated provincial corporate income taxes. Also contributing were lower amortization of power purchase contracts of $21 million and lower interest revenue of $2 million. Partially offsetting the declines were higher power supply contract recoveries of $114 million as recoveries related to $181 million in retroactive payments exceeded decreases due to lower production volume as NUG contracts expire.

Total expenses for the six months ended September 30, 2016 increased by $58 million ($1,203 million vs. $1,145 million) when compared to the same period last year. This is attributable to an increase in power supply contract costs of $114 million as costs payable include $181 million for retroactive payments. Partially offsetting the increase were a reduction in debt interest of $53 million as outstanding debt balances declined compared to 2015 and a $2 million decrease in the debt guarantee fee.

Excess of revenue over expense of $448 million is $161 million lower than the $609 million reported for the period ended September 30, 2015.

Statement of Financial Position (compared to March 31, 2016)

Cash and temporary investments decreased by $1,207 million from $3.4 billion at March 31, 2016 to $2.2 billion at September 30, 2016 as funds were used to retire short and long-term debt. Due from Province increased by $65 million including $224 million electricity dedicated income, $13 million for estimated Hydro One Inc. provincial corporate income taxes less $172 million settled by remission of debt with the Province in August 2016. Loans receivable from NUGs decreased by $5 million during the period.

Debt outstanding at September 30, 2016 was $23.0 billion, $1,371 million lower than the $24.3 billion balance at March 31, 2016. The liability for power purchase contracts declined by $65 million to $242 million, reflecting one-half of the annual amortization of $129 million. Prepaid expense increased by $61 million, one-half of the annual debt guarantee fee of $122 million.

Ontario Financing Authority
November 15, 2016

Reviewed by: Ken Kandeepan Approved by: Ronald Kwan

Gadi Mayman

Ontario Electricity Financial Corporation
Statement of Financial Position
as at September 30, 2016 ($ millions)

	Sept. 30 2016	Restated (Note 16) Sept. 30 2015	March 31 2016
ASSETS			
Cash and cash equivalents	$2,218	$1,139	$3,425
Accounts receivable (Note 4)	649	556	466
Interest receivable	36	30	31
Due from Province of Ontario (Note 5)	4,346	5,123	4,281
Notes and loans receivable (Note 6)	12,519	12,550	12,524
	$19,768	$19,398	$20,727
LIABILITIES			
Accounts payable and accrued liabilities (Note 7)	$243	$69	$104
Interest payable	343	354	393
Debt (Note 8)	22,974	26,136	24,345
Power purchase contracts (Note 10)	242	393	307
	23,802	26,952	25,149
NET DEBT	(4,034)	(7,554)	(4,422)
NON-FINANCIAL ASSETS			
Prepaid expense	61	63	-
Deferred costs on hedging	28	2	29
UNFUNDED LIABILITY (Notes 1,3,12, 16)	(3,945)	(7,489)	($4,393)
Contingencies and guarantees (Note 13)			

See accompanying notes to financial statements

Ontario Electricity Financial Corporation
Statement of Operations and Change in Unfunded Liability
for the Six Months Ended September 30, 2016 ($ millions)

	Sept. 30 2016	Restated (Note 16) Sept. 30 2015	March 31 2016
REVENUE			
Debt retirement charge (Notes 1, 12)	$311	$466	$859
Payments-in-lieu of tax (Notes 1, 12, 15)	183	223	3,228
Interest (Note 6)	356	358	723
Power supply contract recoveries (Note 10)	512	398	875
Net reduction of power purchase contracts (Note 10)	65	86	172
Electricity sector dedicated income (Notes 5, 12)	224	220	3
Financial benefit from the Province related to the disposition of Hydro One shares (Notes 5, 12)	-	-	172
Other	-	3	9
	1,651	1,754	6,041
EXPENSE			
Interest on debt	623	676	1,319
Power supply contract costs (Note 10)	512	398	875
Debt guarantee fee	61	63	127
Operating	3	4	7
Industrial electricity incentive program costs (Note 11)	4	4	8
	1,203	1,145	2,336
Excess of revenue over expense	448	609	3,705
Unfunded liability, beginning of period as previously reported	(4,393)	(8,185)	(8,185)
Prior period adjustment (Note 16)		87	87
Unfunded liability, beginning of period restated	(4,393)	(8,098)	(8,098)
Unfunded liability, end of period	($3,945)	($7,489)	($4,393)

See accompanying notes to financial statements

Ontario Electricity Financial Corporation
Statement of Cash Flow
for the Six Months Ended September 30, 2016 ($ millions)

	Sept. 30 2016	Restated (Note 16) Sept. 30 2015	March 31 2016
CASH FLOWS USED IN OPERATING ACTIVITIES			
Excess of revenue over expense	$448	$609	$3,705
Adjustments for:			
Net reduction of power purchase contracts (Note 10)	(65)	(86)	(172)
(Increase) decrease in accounts receivable (Note 4)	(183)	(29)	61
Increase in interest receivable	(5)	-	(1)
(Increase) decrease in due from province of Ontario (Note 5)	(237)	(220)	622
Increase (decrease) in accounts payable and accrued liabilities (Note 7)	139	(59)	(23)
(Decrease) increase in interest payable	(50)	(33)	6
Increase in prepaid expense	(61)	(63)	-
Decrease (increase) in deferred costs on hedging	1	(1)	(30)
Other items	25	14	7
Cash provided from operations	12	132	4,175
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term debt issued	-	922	1,073
Long-term debt retired	(415)	(100)	(2,033)
Short-term debt retired, net	(804)	(21)	(21)
Note receivable repayment, net	-	205	230
Cash (required by) provided from financing activities	(1,219)	1,006	(751)
(Decrease) increase in cash and cash equivalents	(1,207)	1,138	3,424
Cash and cash equivalents, beginning of period	3,425	1	1
Cash and cash equivalents, end of period	$2,218	$1,139	$3,425
Cash and cash equivalents consist of:			
Cash	3	1	12
Cash equivalents	2,215	1,138	3,413
	$2,218	$1,139	$3,425
Interest on debt paid during the period and included in excess of revenue over expense	$673	$709	$1,313

See accompanying notes to financial statements

Ontario Electricity Financial Corporation **Appendix 1**

Statement of Operations

for the Six Months Ended September 30, 2016 ($ millions)

(with comparative figures for 2015)

	2016-17 Fiscal Year Budget / Forecast		September 30, 2016 Forecast to Actual			Prior Year Comparison to Actual	
	Budget	Oct. 2016 Forecast	Sept. 30, 2016	Forecast	Variance	Sept. 30, 2015	Variance
REVENUE							
Debt retirement charge (Notes 1, 12)	625	625	311	313	(2)	466	(155
Payments-in-lieu of tax (Notes 1,12,15)	515	390	183	195	(12)	223	(40)
Interest (Note 6)	684	712	356	356	-	358	(2)
Power supply contract recoveries (Note 10)	643	671	512	336	176	398	114
Net reduction of power purchase contracts (Note 10)	129	129	65	65	-	86	(21)
Electricity sector dedicated income (Note 12)	138	447	224	224	-	220	4
Financial benefit from the Province (Notes 5,12)	-						
Other	5	3	-	-	-	3	(3)
	2,739	2,977	1,651	1,489	162	1,754	(103
EXPENSE							
Interest on debt	1,216	1,216	623	608	(15)	676	53
Power supply contract costs (Note 10)	643	671	512	336	(176)	398	(114
Debt guarantee fee	122	122	61	61	-	63	2
Operating	6	6	3	3	-	4	1
Industrial electricity incentive program costs (Note 11)	10	10	4	5	1	4	-
	1,997	2,025	1,203	1,013	(191)	1,145	(58
Excess of revenue over expense	742	952	448	476	(29)	609	(161

Notes to Financial Statements

1) Nature of Operations

Effective April 1, 1999, pursuant to the Electricity Act, 1998 (the Act), Ontario Hydro was continued as a corporation without share capital under the name "Ontario Electricity Financial Corporation" (OEFC or Corporation). The Corporation is one of five entities established by the Act as part of the restructuring of the former Ontario Hydro. It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act (Canada).

OEFC is a Crown agency whose mandate includes:

- managing the debt and administering the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities and managing the former Ontario Hydro's non-utility generator (NUG) contracts;
- providing financial assistance to the successor corporations of Ontario Hydro; and
- entering into financial and other agreements relating to the supply and demand management of electricity in Ontario.

These other successor entities are:

- Ontario Power Generation (OPG), an electricity generation company;
- Hydro One, a regulated electricity transmission and distribution company;
- Independent Electricity System Operator (IESO), the regulated, independent system operator responsible for directing system operations, operating the electricity market, planning for and securing resources to meet medium and long-term energy needs, and coordinating conservation efforts; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the Ministry of Finance determined that the estimated value of the assets being transferred to the new entities was $17.2 billion, which was exceeded by the former Ontario Hydro's total debt and other liabilities of $38.1 billion. OPG, Hydro One (and their subsidiaries) and the IESO were transferred assets valued at $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. The resulting shortfall of $20.9 billion was determined by the Ministry of Finance to be the "stranded debt". After adjusting for $1.5 billion in loans and other assets retained by OEFC, $19.4 billion was the unfunded liability reflected on the OEFC opening balance sheet.

To allow OEFC to service and retire $38.1 billion in total debt including the $20.9 billion in stranded debt, the Province established a long-term plan where debt service and repayment would be through dedicated revenues from electricity-sector. This would be broken down for the electricity sector as follows:

- Notes receivable from the Province, OPG, Hydro One and IESO;

- Payments in lieu of taxes (PILs), which are equivalent to the corporate income, property and capital taxes paid by private corporations;
- Debt retirement charge (DRC) paid by electricity consumers; and
- The cumulative combined profits of OPG and Hydro One in excess of the government's $520 million annual interest cost of its investments in the two companies.

As of April 1, 1999, the present value of the PILs and the cumulative combined profits of OPG and Hydro One in excess of the government's $520 million annual interest cost of its investments in the two companies was estimated at $13.1 billion. As a result, subtracting the $13.1 billion from the stranded debt of $20.9 billion resulted in an initial estimate of $7.8 billion, for the residual stranded debt.

The Act provided the DRC to be paid by electricity consumers until the residual stranded debt was retired. The 2014 Budget announced that the government would remove the DRC from residential users' electricity bills as of January 1, 2016. At March 31, 2014, the residual stranded debt was $2.6 billion. In addition, the 2015 Fall Economic Statement announced the proposed removal of the DRC for all commercial, industrial and all other electricity consumers as of April 1, 2018. Pursuant to this announcement, the Electricity Act, 1998 was amended by the Budget Measures Act, 2015 and all reference to the "stranded debt" and "residual stranded debt" were removed. This also included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete.

2) Summary of Significant Accounting Policies

Basis of Accounting

As OEFC is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

Net Debt Presentation

A statement of changes in net debt is not presented since this information is readily apparent. Due to the unique nature of the corporation, no budget figures have been provided.

Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty in these financial statements exists in the valuation of the power purchase contracts and payments-in-lieu of tax revenue, payments-in-lieu of tax receivable and tax refundable. Estimates are based on the best information available at the time of preparation of the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and highly liquid investments recorded at cost and mature within one year.

Revenue Recognition

The main sources of revenue are:

- **Debt retirement charge (DRC)** from ratepayers is recognized based on the consumption of electricity.
- **Payments-in-lieu of taxes (PILs)** are recognized in the period that they are earned from OPG, municipal electric utilities, including Brampton Distribution Holdco Inc., and Hydro One Inc. provincial corporate income tax (CIT) in accordance with section 91.2 of the Electricity Act, 1998.
- **Power supply contract recoveries** are recovered at the same amount as the costs incurred on the Power supply contracts.
- **Electricity sector dedicated income** is allocated at the discretion of the Province of Ontario, using the cumulative combined net income of OPG and Hydro One (related to the Province's ownership) in excess of the Province's interest costs of its investment.
- **Provincial allocation related to the sale of Hydro One** is recognized in accordance with section 50.3 of the Electricity Act, 1998 where OEFC receives a benefit as a result of the sales of Hydro One shares.

Financial Instruments
The corporation's financial assets and liabilities are accounted for as follows:

- Cash and cash equivalents is subject to an insignificant risk of change in value so carrying value approximates fair value.

- Accounts Receivable, Due from Province and Notes and Loans Receivable are recorded at cost.

- Debt is composed of short, medium and long-term bonds, notes and debentures. Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at year-end rates of exchange and, in accordance with Canadian public sector accounting standards, any exchange gains or losses are deferred and amortized over the remaining term to maturity.

- Discounts, premiums and commissions arising from the issuance of debt or the acquisition of debt prior to maturity are deferred and amortized to operations over the life of the underlying debt. Unamortized debt issue costs are included in total debt.

- Derivatives are financial contracts the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options. Derivatives are recognized at cost on the date on which derivatives are entered and are not subsequently re-measured at fair value at each reporting date.

Deferred Costs on Hedging
Fees and other costs from debt related derivatives are deferred and amortized to operations over the life of the underlying debt. Unamortized amounts are classified under non-financial assets.

Accounts payable and accrued Liabilities
Accounts payable relate to normal business transactions with third-party suppliers and are subject to standard commercial terms.

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

3) Going Concern

OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying its outstanding notes receivable. It is also dependent on the government's long-term plan to defease the unfunded liability as described in Note 12.

4) Accounts Receivable

Accounts receivable at September 30, 2016 are comprised of the following ($ millions):

	Sept. 2016	March 2016
Debt retirement charge	91	91
Payments-in-lieu of tax	327	284
Power supply contract recoveries	229	83
Other receivables	2	8
Total	$649	$466

5) Due from Province of Ontario

In 1999, the Province put in place a policy commitment to allocate annually the combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC. Under these arrangements, the Province recoups all costs associated with its investments in electricity subsidiaries on a cumulative basis before any of the combined net income is allocated to and recognized by OEFC.

For the six months ended September 30, 2016, for the purposes of Electricity Sector Dedicated Income, OEFC has recognized income of $224 million (2015 – $ 220 million), one-half of the annual forecast of $447 million.

Section 50.3 of the Electricity Act, 1998 governs the payments to be made to the Corporation in respect of the disposition of any securities of Hydro One. For fiscal 2015-16, OEFC recognized $172 million from the Province under section 50.3 in connection with the Hydro One share sales in November 2015. On August 10, 2016, the Province settled the amount due by a remission of short-term debt that OEFC held with the Province.

In addition, section 91.2 of the Electricity Act, 1998 requires the Province to pay to the Corporation an amount equal to the amount of tax payable under the Taxation Act, 2007 by Hydro One Inc. (or subsidiaries). For fiscal 2015-16, OEFC recognized $2.9 million under section 91.2. For the six months ended September 30, 2016, OEFC has accrued $13 million as an estimate of amounts due under section 91.2.

6) Notes and Loans Receivable

($ millions**)**

	Maturity date	Interest rate	Interest payable	Sept. 30, 2016	Sept. 30, 2015	March 31, 2016
Province of Ontario	2039-2041	5.85	Monthly	8,885	8,885	8,885
OPG	2016-2042	2.96 to 6.33	Semi-annually	3,465	3,465	3,465
IESO	2017	Variable/2.05	Monthly/Semi-Annually	90	115	90
				12,440	12,465	12,440
Add: Loans receivable from non-utility generators (NUGs)				79	85	84
				$ 12,519	$ 12,550	$ 12,524

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

The Province

As previously noted above, at the time of restructuring the former Ontario Hydro, the Province received equity of $8.9 billion in OPG and Hydro One in exchange for assuming debt payable to OEFC. There has been no additional borrowing by the Province.

OPG

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.

Under the Niagara tunnel project agreement, the OEFC has agreed to provide for up to $1.6 billion loan whereby $1.1 billion has been advanced with borrowing under the facility now complete.

The OEFC has agreed to provide up to $700 million in support of OPG's investment for the Lower Mattagami project. The facility agreement expired June 30, 2016 with no borrowing under this credit facility.

The OEFC has agreed to provide up to $800 million for general corporate purposes, including the Darlington refurbishment project, expiring on December 31, 2016 and a $700 million credit facility for the period June 1, 2016 to December 31, 2017. As at September 30, 2016, there has been no borrowing under these facilities.

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

($ millions)

Fiscal Year	Amount
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

IESO

In April 2014, OEFC refinanced a note receivable with the IESO, originally maturing on April 30, 2014 for an additional 3 years. The refinancing increased the principal outstanding from $78.2 million as at March 31, 2014 to $90 million as at April 30, 2014.

In April 2014, OEFC also extended the expiry date of its revolving credit facility to the IESO to April 30, 2017, and decreased the credit facility from $110 million to $95 million. The credit facility bears interest at a floating rate equal to the Province's cost of borrowing for a 30 day term plus 50 basis points. The facility will be used for liquidity purposes and to temporarily fund working capital requirements. At September 30, 2016, IESO had no balance drawn on the credit facility.

NUGs

Loans receivable from NUGs at September 30, 2016 totalled $79 million (March 2016 – $84 million).

OEFC's interest income for the six months ended September 30, 2016 of $356 million (2015 - $358 million) included interest from notes receivable of $347 million (2015 - $352 million) and $9 million (2015 - $6 million) from other sources including temporary investments.

7) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at September 30, 2016 are comprised of the following ($ millions):

	Sept. 2016	March 2016
Power supply contract costs	232	88
Payments-in-lieu of tax refundable	8	12
Other liabilities	3	4
Total	$243	$104

8) Debt

Debt at September 30, 2016 is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

($ millions) Currency	Canadian Dollar	U.S. Dollar	Other Foreign	Sept. 30, 2016 Total	Sept. 30, 2015 Total	March 31, 2016 Total
Maturing in:						
1 year	2,954	--	263	3,217	3,977	4,607
2 years	2,127	295	338	2,760	2,563	2,119
3 years	900	74	--	974	2,763	709
4 years	1,288	--	--	1,288	974	1,384
5 years	1,106	--	--	1,106	1,288	1,361
1-5 years	8,375	369	601	9,345	11,565	10,180
6-10 years	10,100	--	--	10,100	10,034	9,628
11-15 years	941	--	--	941	1,216	1,215
16-20 years	100	--	--	100	850	850
21-25 years	1,624	--	--	1,624	1,331	1,328
26-50 years	875	--	--	875	1,157	1,157
	$22,015	$369	$601	$22,985	$26,153	$24,358
Debt issue costs				(11)	(17)	(13)
Total				$22,974	$26,136	$24,345

The effective rate of interest on the debt portfolio was 5.30 per cent after considering the effect of derivative instruments used to manage interest rate risk (March 2016 - 5.14 per cent). The longest term to maturity is to December 2, 2046. Total foreign currency denominated debt at September 30, 2016 was $1.0 billion, 100 per cent of which was fully hedged to Canadian funds (March 2016 - $1.2 billion or 100 per cent). Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

	September 30, 2016			Sept. 30, 2015	March 31, 2016		
($ millions)	Held by the Province	Guaranteed by the Province	Total	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	$ 654	–	$ 654	$1,630	$ 1,630	–	$ 1,630
Current portion of long-term debt	2,563	–	2,563	2,347	2,977	–	2,977
Long-term debt	13,447	6,310	19,757	22,159	13,428	6,310	19,738
Total	$16,664	$ 6,310	$ 22,974	$26,136	$ 18,035	$ 6,310	$ 24,345

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing OEFC's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of OEFC debt at September 30, 2016 was $28.1 billion (March 2016 - $29.3 billion). This is higher than the book value of $23.0 billion (March 2016 - $24.3 billion) because current interest rates are generally lower than the interest rates at which the debt was issued. The fair value of debt does not reflect the effect of related derivative contracts.

9) Risk Management and Derivative Financial Instruments

OEFC operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost-effective manner. A variety of strategies are used including the use of derivative financial instruments ("derivatives"). Derivatives are financial contracts, the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange/currency risk

Foreign exchange or currency risk is the risk foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, derivative contracts are used to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency debt principal, net of foreign currency holding, to reach a maximum of 5.0 per cent of total debt. At September 30, 2016, the actual unhedged level was 0.0 per cent of total debt (March 2016 – 0.0 per cent).

Net interest rate resetting risk

Net interest rate resetting risk is the exposure to changes in interest rates. Exposure to rate changes is reduced by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt and fixed rate debt maturing within the next 12 months, net of liquid reserves, to reach a maximum of 35.0 per cent of total debt. At September 30, 2016, net interest rate resetting risk as a percentage of total debt was 3.9 per cent (March 2016 – 7.6 per cent).

Liquidity risk

Liquidity risk is the risk OEFC will not be able to meet its current short-term financial obligations. As explained in Note 3, OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying its outstanding notes receivable.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at September 30, 2016 based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value

As at September 30, 2016 ($ millions)

Maturity in Fiscal Year	2017	2018	2019	2020	2021	6-10 Years	Over 10 Years	Total	March 2016
Cross-currency swaps	566	667	203	-	-	-	-	1,436	1,631
Interest rate swaps	922	627	708	-	-	100	653	3,010	3,205
Forward foreign exchange contracts	194	-	-	-	-	-	-	194	498
Total	$1,682	$1,294	$911	$-	$ -	$100	$653	$4,640	$5,334

Credit Risk

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which OEFC has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at September 30, 2016.

Credit Risk Exposure ($ millions)	Sept. 30, 2016	March 31, 2016
Gross credit risk exposure	$194	$263
Less: Netting	(148)	(218)
Net credit risk exposure	$ 46	$ 45

OEFC manages its credit risk exposure from derivatives by, among other ways, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, OEFC enters into contractual agreements ("master agreements") that provide for termination netting and, if applicable, payment netting with most of its counterparties. Gross credit risk exposure represents the loss OEFC would incur if every counterparty to which OEFC had credit risk exposure were to default at the same time, and the contracted netting provisions were not exercised or could not be enforced. Net credit risk exposure is the loss including the mitigating impact of these netting provisions.

10) Power Supply Contracts

Power supply contracts include both power purchase contracts and power supply support agreements. Power purchase contracts and related loan agreements were entered into by the former Ontario Hydro with NUGs located in Ontario. As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts. The contracts, expiring on various dates to 2048, provide for the purchase of power at prices in excess of future market price. Accordingly, a liability was recorded at $4,286 million on a discounted cash-flow (DCF) basis when the former Ontario Hydro was continued as OEFC on April 1, 1999.

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

Statement of Liability for Power Purchase Contracts ($ millions)

	Sept. 30, 2016	Sept. 30, 2015	March 31, 2016
Liability, beginning of period	$307	$479	$479
Amortization	(65)	(86)	(172)
Liability, end of period	$242	$393	$307

In addition, effective January 1, 2009, OEFC entered into a support contract, the Contingency Support Agreement (CSA), with OPG whereby OPG agreed to maintain the reliability and availability of Lambton and Nanticoke coal-fired stations following implementation of a greenhouse gas emissions-reduction strategy. Under the contract, OEFC agreed to ensure OPG would recover the actual costs of operating the stations after implementing this strategy. Any costs to OEFC under this agreement are fully recovered from ratepayers. As at December 31, 2013, OEFC triggered an early termination clause in the CSA to reflect the advanced closure of these plants by one year to the end of 2013. OPG is allowed to recover actual costs that cannot reasonably be avoided or mitigated, during the period from the early shut down date until December 31, 2014, consistent with the original end date of the CSA.

During the six months ended September 30, 2016, OEFC's costs under power supply contracts totalled $512 million (2015 – $398 million) including $181 million payable to NUGs for retroactive payments (Note 13).

11) Industrial Electricity Incentive Program Costs

Consistent with its objects, OEFC is supporting the IESO's electricity demand management program, the Industrial Electricity Incentive (IEI) program. The IEI program assists with the management of electricity demand by encouraging increased industrial production through electricity-based price adjustments. Offered in three streams, qualified participants can receive reduced electricity rates for eligible incremental consumption over a specified term.

On March 31, 2014, OEFC entered into a legal agreement with the former OPA to support Stream 1 and Stream 2 of the IEI program, and amended on May 13, 2015, to accommodate the new Stream 3. 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. OEFC is providing payments to the IESO to offset the cost of the DRC portion of the electricity bill paid to OEFC on IEI-eligible incremental consumption by IEI participants. The agreement is currently set to be effective until December 31, 2024, when Stream 3 is set to end, with contracts subject to various termination clauses. The IESO has not executed any Stream 1 contracts.

The Budget Measure Act, 2015, passed on December 10, 2015 will remove the DRC as of April 1, 2018 for all commercial, industrial and all other electricity consumers. OEFC will no longer provide offsetting payments to the IESO on IEI-eligible incremental electricity consumed beginning April 1, 2018.

12) Unfunded Liability

Pursuant to the Act and consistent with the principles of electricity restructuring, the government has a long-term plan to defease the unfunded liability from the electricity sector.

The plan includes funds from the following sources:

Prior to the Hydro One IPO (see note 15), these funds included Notes Receivable, PILs, Gross Revenue Charges (GRC), DRC and ESDI.

Following the Hydro One IPO, these funds include Notes Receivable, PILs, GRC, Provincial Corporate Income Taxes allocated to OEFC from taxes payable by Hydro One Inc. in accordance with The Budget Measures Act, 2015, DRC, ESDI and a financial benefit from the proceeds of the IPO and any future share sales in accordance with section 50.3 of the Electricity Act, 1998.

13) Contingencies and Guarantees

OEFC is involved in various legal actions arising out of the ordinary course and conduct of business. For some claims which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999, OPG or Hydro One is required to indemnify OEFC for any liability arising from the claim. There are currently no such claims. For claims on which OEFC is provided no indemnification and where the outcome and ultimate disposition of these legal actions is not determinable at this time, the settlements, if any, will be reflected in the period in which settlement occurs.

Prior to October 31, 2015, subject to a $10 million deductible, OEFC agreed to indemnify Hydro One in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the company at April 1, 1999, and any failure of the transfer order to transfer such assets, rights or things and with respect to payment to or from or other dealing with any equity account of Ontario Hydro, including certain related litigation. Effective October 31, 2015, OEFC and Hydro One terminated this indemnity. A similar indemnity provided to OPG was terminated as of May 31, 2006.

OEFC was contingently liable under guarantees given to third parties that had provided long-term financing to certain independent power producers in connection with the power purchase agreements described in Note 10. The final loan payments were made in February 2016 and as a result there are no longer guarantees outstanding.

Under a decision dated March 12, 2015 the Ontario Superior Court of Justice found that following the enactment of Ontario Regulation 398/10 under which the allocation of the Global Adjustment among electricity consumers was changed effective as of January 1, 2011, the Corporation had incorrectly calculated the price indices under certain power purchase agreements between the Corporation and the applicant non-utility generators (NUGs). OEFC appealed this decision to the Ontario Court of Appeal. On April 19, 2016, OEFC's appeal was dismissed. On June 20, 2016 OEFC applied to the Supreme Court of Canada for leave to appeal the decision of the Court of Appeal. The application is expected to be determined in January 2017. On September 13, 2016, the application for stay was denied by the Ontario Court of Appeal. As a result, on October 21, 2016 the corporation paid $181 million in retroactive payments including interest to the applicant NUGs which is fully recoverable from IESO via the Global Adjustment.

14) Related Party Transactions

In the normal course of operations, OEFC has transactions with the following related parties:

a) Province of Ontario
b) Ontario Power Generation Inc.
c) Hydro One Inc. (for the period up to October 2015) and Hydro One Ltd. (post IPO)
d) Independent Electricity System Operator

The Corporation has entered into several agreements with the following entities:

Ontario Financing Authority

The Ontario Financing Authority (OFA), an agency of the Province responsible for borrowing and investing monies for the Province and other public bodies, provides day-to-day management services to OEFC on a cost-recovery basis of $1.9 million for the six months ended September 30, 2016 (2015 – $1.8 million).

Ministry of Finance (MOF)
MOF provides revenue collection and reporting services to OEFC on a cost-recovery basis amounted to $0.9 million for the six months ended September 30, 2016 (2015 – $0.9 million).

15) Broadening Hydro One Ownership

On April 16, 2015, the Province announced that it would proceed with an IPO of about 15 per cent of Hydro One in 2015–16, with subsequent share sales over time, totalling up to 60 per cent of its voting securities in Hydro One. Legislation was passed that restricts the Province from selling more than 60 per cent of the voting securities in Hydro One. The 2015 Budget bill, Building Ontario Up Act, 2015 included an amendment to the Electricity Act, 1998 to ensure that OEFC benefits from broadening ownership of Hydro One, thus contributing to the continuing reduction of its unfunded liability.

On November 5, 2015, the Province completed the first phase of its plan to broaden Hydro One ownership. It sold about 16 per cent of the Province's outstanding Hydro One common shares at a price of $20.50 per share, through an IPO and through related share sales to electricity sector union trusts.

On November 4, 2015, Hydro One paid a departure tax of $2.6 billion to OEFC as a consequence of leaving the PILs regime. Hydro One also paid one-time additional PILs of $191 million associated with the transaction.

As a result of the Hydro One IPO, Hydro One and all its subsidiaries are subject to corporate income taxes (CIT). Under the amendments made to the Electricity Act, 1998 in the fall Budget Measures Act, 2015, the Minister of Finance must pay the OEFC an amount equal to provincial tax payable under the Taxation Act, 2007 by Hydro One Inc., to continue to help service and pay down the electricity sector stranded debt.

Proceeds to the Province related to the book value of the shares sold will be used to pay down the Province's electricity sector debt and other payables, which will allow OEFC to incrementally reduce its debt outstanding over time. On February 19, 2016, the Province also paid OEFC the $800 million that it had received as a special dividend from Hydro One prior to the IPO, which the Province applied to reduce its payable related to cumulative electricity sector dedicated earnings (Due from the Province of Ontario).

In accordance with section 50.3 of the Electricity Act, 1998, OEFC recognized a financial benefit from the Province of $172 million in connection with the Province's disposition of Hydro One common shares in the year ended March 31, 2016.

The Province also initiated a secondary share offering of Hydro One shares on April 5, 2016 which upon completion reduced the Province's holdings of Hydro One to approximately 70 per cent.

16) Restatement of Comparative Figures

The Ministry of Finance has determined certain hydro-electric generating stations have incorrectly remitted Gross Revenue Charge payments to the Minister of Finance instead of OEFC. The error was attributable to the enactment of the Provincial Land Tax Act, 2006 by Bill 151 Budget Measures Act 2006 which repealed ss. 92.1(2.1) of the Electricity Act, 1998 effective January 1, 2009.

Misallocated payments from January 1, 2009 to March 31, 2016 total $99 million including $87 million relating to periods prior to fiscal 2016, thereby increasing OEFC's payments-in-lieu of tax and accounts receivable for the six months ending September 2015 as set out below:

		September 2015	
($ millions)	**Previously Stated**	**Change**	**Restated**
Statement of Financial Position:			
Accounts Receivable	$ 463	$ 93	$ 556
Opening Unfunded Liability	$ (8,185)	$ 87	$ (8,098)
Closing Unfunded Liability	$ (7,582)	$ 93	$ (7,489)
Statement of Operations:			
Payments-in-lieu of tax revenue	$ 217	$ 6	$ 223
Excess of revenue over expense	$ 603	$ 6	$ 609

17) Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

OEFC BOARD OF DIRECTORS
RESOLUTION: December 16, 2016

<u>OEFC Market Risk Policy OEFC Treasury Program (revised)</u>

Resolved that:

> The revised OEFC Market Risk Policy Treasury Program in the form of the draft presented to this meeting, is approved.

Confidential

~~Ontario Electricity Financial Corporation~~

MARKET RISK POLICY

OEFC TREASURY PROGRAM

Revisions approved by the Board on December 13, 2001
Revisions approved by the Board on December 13, 2002
Revisions approved by the Board on December 6, 2006
Revisions approved by the Board on September 26, 2008
Revisions approved by the Board on April 20, 2010
Revisions approved by the Board on September 13, 2011
Revisions approved by the Board on December 13, 2012
Review by the Board on December 13, 2013
Revisions approved by the Board on June 24, 2014
Revisions approved by the Board on December 11, 2015
Revisions submitted to the Board for approval on December 16, 2016

1. INTRODUCTION

The objective of managing Market Risk is to limit the exposure of the Ontario Electricity Financial Corporation's (OEFC)~~'s~~ Interest on Debt (IOD) to adverse changes in ~~market factors~~interest and exchange rates. This exposure ~~to market factors~~ originates from capital market activities of the~~he~~ Ontario Financing Authority (OFA) undertake~~ns capital market activities~~ on behalf of the ~~Ontario Electricity Financial Corporation (~~OEFC~~)~~, including management of ~~ing~~ the borrowing program, ~~OEFC~~ debt, and liquid reserves.~~such as borrowing and short-term investment. These activities expose the OEFC to the risk of lossespotential incremental costs or losses arising from adverse changes in interest and foreign exchange rates.~~ The OEFC may also be impacted by periods of poor market liquidity. Given the size of the OEFC's public debt as well as the potential impacts to ~~and~~ Ontario's reputation in the market place, it is essential to manage ~~the~~ such market risk exposures in a sound and efficient manner. ~~The objective of managing market risk is to limit the exposure of OEFC's Interest Expense (OIE) to adverse changes in market factors.~~

This document is part of the OEFC's risk management policy framework, which also includes the ***Policy on the Use of Derivatives and Other Financial Instruments***, the ***Credit Risk Policy***, and the ***Risk Management Reporting Policy***.

2. PURPOSE

The purpose of this policy is to:

- Establish a sound and efficient framework for managing market risk; and~~.~~
- Set out responsibilities and accountabilities of the Board of Directors, OFA management and divisions for managing OEFC's market risk.

3. DEFINITIONS

~~**Debt and Investment Management Loss** is the loss in the debt management program plus the loss in the Money Market Portfolio as measured against the program benchmark. Losses arising from credit events or counterparty defaults are excluded from this measurement.~~

Foreign Exchange (FX) Exposure is the net exposure of OEFC debt to ~~the risk associated with adverse~~ changes in foreign exchange rates.

Interest on Debt (IOD) is the consolidated interest expense of the Province. It includes OEFC Interest Expense.

IOD Loss is the increase in projected IOD, including OEFC Interest Expense (OIE), over the Budget forecast resulting from adverse changes in interest rates, foreign exchange rates, the Consumer Price Index, and credit losses.

The **Liquid Reserve** is comprised of cash and short-term investments managed by the OFA for the OEFC ~~Province of Ontario~~ before consolidation with other government entities. This represents all investments managed by the OFA for use by the OEFC ~~Province of Ontario~~ that are readily convertible to known amounts of cash for the purpose of meeting short-term cash commitments. ~~It includes all the cash and financial securities held by the Province, net of collateral posted under a Credit Support Annex (CSA).~~

Market Access Risk is the risk that the OFA may not be able to satisfy the OEFC's funding requirements if capital markets are not receptive to new provincial debt issues.

Market Liquidity Risk is the risk of being unable to close out open positions in financial instruments quickly enough and in sufficient quantities at a reasonable price to avoid adverse financial impacts.

Market Risk is the risk that the value of a portfolio will adversely change as a result of changes in market factors, such as interest or foreign exchange rates, or changes in market liquidity.

~~The **Money Market Portfolio** refers to a subset of the Province's Liquid Reserve. It includes all money market securities, short-term bonds and investments made through purchase and re-sale agreements (reverse repo), including internal reverse repos, less any securities lent out of the money market portfolio through a repo agreement. It differs from the Liquid Reserve in that it excludes outright bond positions held for hedging purposes but does include internal reverse repos of those bonds in the money market portfolio. The Money Market Portfolio also excludes any cash held in the Province's bank accounts.~~

OEFC Interest Expense (OIE) is the interest expense of OEFC which is a part of the Interest on Debt.

Net Interest Rate Resetting Exposure (NIRRE) is the amount of OEFC debt subject to changes in interest rates over the next twelve months. It includes floating rate debt and fixed rate debt maturing within the next twelve months, net of liquid reserve investments and loans made by OEFC subject to changes in interest rates over the next twelve months. For the calculation of NIRRE, liquid reserves do not include long-term, fixed rate bonds held for hedging purposes.

OEFC Debt is all debt issued on behalf of the OEFC. It includes outstanding debt issued by Ontario Hydro prior to April 1, 1999.

A **Stress Test** is a procedure whereby financial positions are subjected to a hypothetical change in market conditions (for example, large interest rate movements) to assess the potential impact of such a change. The change may be hypothetical (for example, a drastic change in the shape of the yield curve) or based on a historical occurrence (such as the 2008 financial crisis).

Treasury Program includes activities undertaken by the OFA on behalf of the OEFC for the purpose of borrowing, debt management, and liquid reserves management.

Value-at-Risk (VaR) of a financial position is the maximum amount one would expect to lose on the position or portfolio based on adverse changes in market conditions, at a predetermined level of confidence (usually 95% or 99%).

4. APPLICATION AND SCOPE

This policy applies to all management and staff of the OFA and to all their activities related to market risk exposures created through arms-length capital market transactions on behalf of the OEFC's Treasury Program~~.~~

5. APPROVAL OF POLICY AND AMENDMENTS

This policy, as well as amendments recommended by the Borrowing Strategy Committee (BSC) and the OEFC Audit Committee, become effective upon approval by the OEFC Board of Directors.

6. PRINCIPLES

The OFA follows best practices as applicable to the OEFC's capital market and risk management activities and is guided by the following principles for market risk management:

Principle 1: The OFA shall manage market risk exposures of the OEFC in a sound and efficient manner.

Principle 2: The OFA shall identify and measure current and potential market risk exposures associated with its capital market activities on behalf of the OEFC's Treasury Program, incorporating forward looking approaches to the extent feasible.

Principle 3: The OFA will maintain appropriate segregation of duties among the Capital Markets, Risk Control, and other divisions of the OFA.

7. MARKET RISK MANAGEMENT PROCESS

7.1 Financing, Debt and Electricity Management Plan

Prior to the start of each fiscal year of the Provincial budgetary cycle, the Capital Markets Division (CMD) shall prepare an annual ***Financing, Debt and Electricity Management Plan*** for the Province and the OEFC. The Plan shall comply with all risk management policies and the applicable limits specified in those policies, and include:

- A base case plan for the issuance of floating rate and long-term debt under the Borrowing Program, ~~including average term ranges;~~
- Target ranges for foreign exchange and interest rate exposure of the debt portfolio;

- Term selection ranges for the borrowing program; and
- A risk and impact assessment of the base case plan on market risk exposures and the IOD budget; ~~and~~
- ~~A CEO trigger level on the Debt and Investment Management loss covering both the Province and the OEFC.~~

The plan is submitted by the CEO for approval by the OEFC Board of Directors. Once approved, subsequent material changes to the ***Financing, Debt and Electricity Management Plan*** must be approved by the OEFC Board of Directors.

7.2 Market Risk Exposure Limits

The OFA manages market risk exposures related to the capital market activities of the OEFC's Treasury Program within the parameters of the approved ***Financing, Debt and Electricity Management Plan***, as well as the OEFC~~FA~~ risk management policies and related procedures.

Risk Control Division (RCD) will value all positions and will measure all market risk exposures of the OEFC's Treasury Program on a regular basis, and will report them as described in the ***Risk Management Reporting Policy***.

The OEFC's market risk exposures shall remain within the following limits:

- IOD loss limit: The OFA will make best efforts to ensure that the total amount of IOD loss resulting from market risk shall not exceed 3% of budgeted IOD for a fiscal year;
- Net Interest Rate Resetting Exposure limit of 35% of OEFC Debt;
- Unhedged foreign exchange exposure in G7 currencies (including the Euro) and the Swiss Franc may not exceed 5% of OEFC Debt. The OEFC may not maintain unhedged FX exposures in any other currency.

Risk Control will notify the CEO if ~~the aggregate Debt and Investment Management Loss during the current fiscal year exceeds the CEO trigger level specified in the annual~~ ~~***Financing, Debt and Electricity Management Plan***~~ ~~or projected~~forecast IOD for the current fiscal year is forecast to exceed~~s~~ budgeted IOD.

In the event that IOD for the current fiscal year is ~~projected~~ forecast to exceed budgeted IOD by 1.5% or above, Capital Markets Division, in consultation with Risk Control Division, will prepare a strategy amending the annual ***Financing, Debt and Electricity Management Plan*** for approval by the CEO and the OEFC Board of Directors.

7.3 Borrowing

The OEFC will seek stable, low-cost funding through the issuance of short, medium, and long term fixed and floating rate debt, as well as effective hedging activities and tim~~pac~~ing decisions.

When making term selection decisions, the OFA will consider the maturity profiles of the OEFC's debt and loan portfolios.

RCD will value and stress test the borrowing program with respect to adverse changes in market conditions and will apply Value-at-Risk (VaR) methodology on a daily basis to the hedge positions of the Borrowing Program.

~~7.4 Debt Management~~

~~In addition to issuing new debt, the OFA monitors and manages the cost of OEFC's existing debt to improve its cost-effectiveness and to support the liquidity of the OEFC's outstanding public debt.~~

~~RCD measures market risk exposures of the Debt Management Program, through the application of Value-at-Risk (VaR) methodology and stress testing.~~

~~The market risk exposures of the Debt Management Program are subject to a hierarchy of Value-at-Risk (VaR) limits, each of which requires a specific level of program review, reporting and approval. Any changes recommended by the Risk Management Committee (RMC) to the hierarchy of VaR limits will require the approval of the CEO.~~

7.4~~5~~ Liquid Reserve Management

The OFA manages the liquid reserves of the OEFC in accordance with the ***Liquid Reserve Statement of Investment Policy and Procedures (SIPP)***, which is reviewed and approved by the OFA Board of Directors on an annual basis, to meet its liquidity requirements and to mitigate market access risk. Hence, the Liquid Reserve must be invested in assets whose liquidity can be reasonably assured.

The composition of the liquid reserve investment portfolio will be reviewed by the RMC to identify any potential liquidity problems. The CEO will be notified of any significant liquidity concerns identified by the RMC.

8. ROLES AND RESPONSIBILITIES

This section describes the roles and responsibilities of the OEFC Board of Directors and the CEO, as well as internal OFA committees and divisions under this policy. Their roles and responsibilities correspond to those outlined in the ***OFA Corporate Governance Policy***.

8.1 OEFC Board of Directors

- Approves this policy and amendments after a review and recommendation by the Borrowing Strategy Committee (BSC) and the OEFC Audit and Risk Management Committee; and
- Approves the annual ***Financing, Debt and Electricity Management Plan***, as well as ~~significant~~ material changes to the plan.

8.2 Chief Executive Officer (CEO)

- Reviews and recommends to the Board the Financing*, **Debt and Electricity Management Plan***, as well as any in-year material changes.
- ~~Submits the annual ***Financing, Debt and Electricity Management Plan*** to the Board of Directors for approval;~~. ~~and~~
- ~~Approves action plans to keep Debt and Investment Management Loss within the trigger level if necessary.~~

8.3 Borrowing Strategy Committee (BSC)

- Reviews amendments to this policy and recommends approval by the OEFC Board of Directors;
- Reviews current global economic and financial market data provided by the Ontario Ministry of Finance's Office of Economic Policy;
- Reviews the results of credit event, credit exposure, and IOD stress testing ~~of new borrowing and debt management programs;~~ ;~~and~~
- Monitors performance of ~~the money market portfolio, and~~ the borrowing program; and ~~and the debt management Program~~
- Meets on a monthly basis

8.4 Risk Management Committee (RMC)

- Reviews significant borrowing, debt and investment management strategic issues and ensures the soundness of the strategic directions;
- Reviews market access risk implications of recent and upcoming debt issues and maturities;
- Monitors market and market liquidity risk conditions and developments;
- Reviews the liquid reserve investment portfolio to identify any potential liquidity problems; and
- Ensures that prompt and appropriate action is taken in response to high-risk exposures or positions, including potential exposures implied by credit and IOD stress test results; and
- Meets on a weekly basis.

- ~~Recommends action plans to the CEO to ensure that losses from debt and investment management transactions do not exceed the CEO Debt and Investment Management Loss trigger level.~~

8.5 Capital Markets Division (CMD)

- Develops and implements the annual ***Financing, Debt and Electricity Management Plan***, as well as any required amendments to the plan;
- Develops and maintains the Province's ***Liquid Reserve Statement of Investment Policies and Procedures (SIPP)***; and
- ~~Recommends the CEO trigger level for Debt and Investment Management Loss for the CEO's approval; and~~

- Meets weekly to monitor and assess the investment and management of the OEFC's liquid reserves.

8.6 Risk Control Division (RCD)

- Develops and maintains the ***Market Risk Policy***, as well as methodologies for measuring market risk exposures;
- Values positions and measures market risk exposures to ensure compliance with the market risk triggers/limits ~~and Value at Risk limits~~ for the ~~Province's~~ OEFC's debt portfolio;
- Forecasts Interest on Debt (IOD) and measures IOD Loss relative to the budgeted IOD;
- Notifies the CEO in the event that ~~the projected~~forecast IOD exceeds budgeted IOD;
- Supports Capital Markets Division in the development of the annual ***Financing, Debt and Electricity Management Plan***, together with any required amending strategies;
- ~~Monitors and reports the estimated Debt and Investment Management Loss to RMC;~~
- Performs stress tests for credit events, credit exposure~~the Borrowing and Debt Management Programs~~ and IOD; and
- Monitors VaR on a daily basis, and produces explanations for VaR exceptions when adverse changes in profit and loss for borrowing ~~and debt management~~ activities exceed daily VaR.

8.7 Finance and Treasury Division

- Clears and settles transactions;
- Reports failed transactions; ~~and~~
- Calculates OEFC Debt; and~~.~~
- Forecasts and updates the OEFC's cash flows and liquid reserves position.

DRAFT – FOR DISCUSSION ONLY

REVISIONS TO THE OEFC MARKET RISK POLICY

Issue

Seeking Board approval for revisions to the OEFC Market Risk Policy.

Background

The OFA Corporate Governance Policy requires that Risk Control Division review the OEFC's risk management policies annually to ensure they reflect best practice and are consistent with the latest developments in global capital markets. The OEFC's Market Risk Policy is due for review. Other policies do not require updating at this time.

Recommendations and Rationale

It is recommended that the OEFC Board of Directors approve the following proposed changes to the OEFC Market Risk Policy:

1) As in the other risk management policies:

    a. On the title page, the "Ontario Electricity Financial Corporation" be replaced with "OEFC Treasury Program" to clarify that this policy applies to IOD-related OFA transactions on behalf of the OEFC;
    b. References to the Debt Management Program and related policy language be removed since the program has been discontinued;
    c. References to the Director of Risk Control be replaced with the Chief Financial and Risk Officer; and

2) Editorial changes be made throughout the policy for better clarity;

3) Definitions for "Treasury Program" be added;

4) In Sections 8.3 and 8.6 dealing with the roles and responsibilities of the Borrowing Strategy Committee and the Risk Control Division, respectively, the activities relating to stress testing be updated to reflect current practice.

5) In Section 8.4, prompt and appropriate action regarding high risk exposures be added to the roles and responsibilities of the Risk Management Committee in response to the discontinuance of the debt management program.

Risk Control Division
December 16, 2016

The Province to Pay down its Notes to OEFC with the Book Value of the H1 IPO.

Issue

Should the planned pay down of the Provincial notes payable to OEFC, related to Hydro One, using $502.4 million of the $1,070.8 million book value portion of the 2015 IPO proceeds, be at par or fair market value? Note that early redemption at par value is permitted under the conditions of the notes payable.

Recommendation

It is recommended that OEFC use $502.4 million from the Province, to pay down at par, the notes owing from the Province, in accordance with the provisions of the original terms of the promissory notes. Payments at par are also in line with PS 3420 *Inter-Entity transactions* accounting standard, effective April 1, 2017.

It is also recommended that all future debt repayments from the Province to OEFC, in connection with the book value of Hydro One common shares sold, are booked at par and allocated pro rata to reduce the “Due from Province of Ontario” and the debt-for-equity-swap Note related to Hydro One.

It is noted that the other portion of the book value of the IPO proceeds of $568.4 million allocated towards the outstanding ESDI balance will be made on a soon as possible basis while the partial repayment of the promissory note is scheduled for January 31, 2017.

Background:

Effective April 1, 1999, pursuant to the *Electricity Act, 1998*, Ontario Hydro was continued as a corporation without share capital under the name Ontario Electricity Financial Corporation (OEFC), with the responsibility of managing and retiring outstanding debt and other liabilities of the old Ontario Hydro.

As part of restructuring in 1999, the two operating commercial successor companies to the old Ontario Hydro, Ontario Power Generation (OPG) and Hydro One (HOI), acquired from OEFC, in exchange for debt they issued, the operating generating and wire assets respectively of the old Ontario Hydro. The Province then entered into a debt-for-equity swap, acquiring equity in OPG and Hydro One in exchange for assuming responsibility for a total of $8.885 billion in notes payable ($5.126 billion for OPG, and $3.759 billion for Hydro One – $3.436 billion for Hydro One common shares and $0.323 billion for Hydro One preferred shares).

The notes payable carry an annual interest rate of 5.85%, payable monthly, with the principal to be repaid in equal amounts every year between 2039 and 2041.

In the 2016 Budget, the Province renewed its commitment, initially announced in 2015, to pay down electricity sector debt using the book value portion of the proceeds related to the share sale of Hydro One, as well as the $800 million pre-IPO special dividend paid by Hydro One to the Province.

In February 2016, the Province reduced the “Due from Province of Ontario” payable (i.e., the payable related to the accumulated electricity sector dedicated income, or ESDI, payable to OEFC) using the $800 M in cash received from Hydro One through a pre-IPO special dividend.

Approximately $502.4 million of the $1.07 billion November 2015 in Hydro One proceeds relate to the book value of the shares will be used to pay down the $3.759 billion in notes receivable from the Province this fiscal year. The remaining portion of $568.4 million is allocated to pay down the “Due from Province of Ontario” ($4.281 billion) related to the electricity sector dedicated accumulated earnings related to Hydro One. The allocation is determined on the ratio of these balances as at March 31, 2016.

The above payments will be followed in the future by similar payments based on the book value of shares, in relation with the secondary sale of Hydro One common shares completed in May 2016, as well as with future secondary offerings (or other sales) to meet the Province’s plan to reduce its ownership in Hydro One to 40% of the common shares.

The payments made by the Province to OEFC are consistent with the government’s commitment to use an amount of the cash equal to the book value of the sale of Hydro One shares to reduce debt, with a target reduction of $5 billion.

Original Agreement

Par or Fair Market Value?

Under the terms of the promissory notes dated April 1, 1999, on the principal amounts of $3.759 billion (re: Ontario Hydro Services Company (now Hydro One) and $5.126 billion (re: OPG), the Province has the right to prepay all or any portion of the principal upon giving not less than 30 days written notice to

OEFC. There is no make-whole provision in the notes, so they can thus be prepaid based on par value. Given that the book value portion of the proceeds relate to the share sale of Hydro One, the repayment is directed towards the principal attributable to Hydro One common shares.

> *"The Company [Province] shall have the right and privilege of prepaying the whole or any portion of the principal amount of this Note from time to time remaining unpaid and outstanding at any time or times upon giving OEFC not less than 30 days' prior written notice of such prepayment, and the Company [Province] shall, on the date specified in such notice, pay the principal amount of this Note or part thereof specified in such notice to be prepaid on such date."*

The partial repayment of the note is targeted for January 31, 2017. The date takes into account the 30 day notice period and makes allowance for the December holidays.

Ratepayer vs. Taxpayer

OEFC is a provincial agency fully owned by the Province of Ontario and is consolidated in Ontario's Public Accounts. Consequently, all transactions between OEFC and the Province are fiscally neutral and eliminated upon consolidation.

Given the Debt Retirement Charge (DRC) has been removed from residential electricity bills effective January 1, 2016, and that legislation establishing a fixed end date of April 1, 2018 has been passed with respect to non-residential users, there is no impact to ratepayers from the Province exercising its right to do a partial prepayment of its obligation with OEFC regardless whether the partial prepayment is done at par or market value.

Also, at least in the near term, any reduction in interest revenue to OEFC from the notes would be projected to be offset by an increase in the amount of ESDI OEFC would receive, based on ESDI typically being calculated as the Provincial portion of the cumulative combined net incomes from OPG and Hydro One minus the Province's interest costs of carrying the Notes payable. This is because, as the Province pays down the notes owing to OEFC the interest costs of carrying these notes will reduce.

Accounting Considerations

OEFC is controlled by the Province and is within the government reporting entity (GRE) and accordingly is consolidated for Public Accounts purposes. The Province follows Public Sector Accounting Board standards which require transactions within the GRE to be eliminated on consolidation in order to not overstate revenue and expenses (PS 2500.08).

If the payment was made at fair market value, the loss on the Province and gain in OEFC would be eliminated regardless.

Given that both a gain and loss will be eliminated regardless if market values were used, there will be no transparency issues to the public by recording the payment at par.

It should also be noted that given the prevailing low interest rates vs 5.85%, if the payment were made at market value, the Province would make a payment in excess of par value, which would result in a loss on the Province's pre-consolidated books, and an equivalent gain recorded by OEFC of approximately $158 million (depending on the prevailing interest rates at the time of payment). A pay down based on market value will reduce the Province's notes payable to OEFC by approximately $344 million. However, the gain of $158 million will be available in the form of cash to pay down other debt of the OEFC. In essence whether par or market value is applied the OEFC's cash reserves increase by the same amount of $502.4 million, all of which is available for paying down the external debt of the OEFC. As such, the post-consolidation effect on the Province's consolidated debt will be exactly the same whether repayment is made at par or market value.

Since paying at par or at fair market value will have the same effect post consolidation, paying at par is more consistent with the government's Budget commitment to use an amount of the cash equal to the book value of the sale of Hydro One shares.

Moreover, a new standard coming into effect on April 1, 2017, **PS 3420 Inter-Entity Transactions**, which focuses on transactions within the GRE, allows transactions at carrying value (par)

14 ***Inter-entity*** *transactions should be recorded at the carrying amount as determined at the transaction date unless:*

- *(a) transactions are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length;*
- *(b) assets or liabilities are transferred for nominal or no consideration;*
- *(c) transactions are allocated costs and recoveries; or*
- *(d) transactions are unallocated costs.* [APRIL 2017]

There are thus no impediments on reporting the payment at historic cost as there will be no expense and revenue overstatement post-consolidation.

Prepared by:	John Psinas, Ontario Financing Authority, 416-325-8072
Approved by:	Ken Kandeepan, Ontario Financing Authority, 416-325-9814
Date:	November 29, 2016

OPG Funding and Liquidity Status Update
OEFC Board Meeting – December 16, 2016

Purpose

The purpose of this report is to outline the status of OPG's funding and liquidity position on an on-going basis, as directed at the December 2004 OEFC Board meeting.

Current Status

* OPG projects a $275 million cash position at the end of 2016. OPG continues to assume no payment of dividends in its financial projections.

* In December 2014, OEFC entered into a credit facility with OPG for borrowing up to $800 million for the purpose of financing general corporate purposes to the end of 2016, including the Darlington refurbishment project. OPG borrowed $100 million on November 22, 2016. The advance was $50 million for a 10 year term and $50 million for a 30 year term.

* OEFC has entered into an additional credit facility with OPG for borrowing up to $700 million for the purpose of financing general corporate purposes effective January 1, 2017 to the end of 2017, including for the Darlington refurbishment project. The Minister's directive allows OEFC to extend the term of the credit facility to the end of 2018 and increase the amount of the credit facility based on the total financing amount identified in OPG's 2016-2018 Business Plan, following concurrence by the Minister of Energy. OPG obtained concurrence for its Business Plan in November and has requested an increase of $800 million in 2017 and $850 million in 2018 to the credit facility. This increase is within the approved amounts of the Minister's directive. OPG is expected to spend $1,095 million in 2017 on the Darlington Refurbishment project. Staff are working on the amendment.

* OPG has asked OEFC to consider extending a portion of its 2017 maturities in order to reduce refinancing risk. OPG currently has $900 million in maturities with OEFC in 2017. Staff are currently reviewing the request.

* OPG filed its regulated rate application for rates starting in 2017. A potentially adverse decision by the OEB in this proceeding, including its decision on the proposed rate smoothing due to the significant amounts that would be involved, would affect OPG's longer term liquidity outlook.

* As of September 2016, OPG has maintained a long-term credit rating of BBB+ by S&P (updated July 2016) and A(low) by DBRS Ltd (updated April 2016). OPG's commercial paper rating is A-1 (low) and R-1 (low) from S&P and DBRS, respectively. All ratings from DBRS Ltd. have a stable outlook.

OPG Current Financial Outlook, based upon financing updates through October 2016:

Calendar Years,($ millions)	**Q1-Q3 2016 Actuals**	**2016 Forecasted**
Opening Cash	**464**	**464**
Cash from Operations	1,268	1,753
Approved Capital Expenditures	(1,162)	(1,739)
Maturing Debt to OEFC		(270)
Refinance Maturing Debt to OEFC		-
New Debt to OEFC*		200
Project Financing – New Debt**		220
Maturing Debt for Lower Mattagami		(3)
Commercial Paper		(223)
Other Investing Activities	(148)	(107)
Net Debt Issuance (Repayment)	15	
Distributions to Non-Controlling Interest	(11)	(19)
Dividends	-	-
Net Cashflow	**(38)**	**(189)**
Ending Cash	**426**	**275**

* Financing from OEFC for General Corporate Purposes including Darlington Refurbishment project.
** Public market project financing for Lower Mattagami project and the new Post Creek/Peter Sutherland GS. OPG has la commercial paper program for the Lower Mattagami project.

Background

The following table provides the details of deferrals of debt and interest payments, refinancings, and new loans commencing from December of 2004.

Timing	Action	Details
July 2016 Board meeting	Received Minister's Directive on June 17, 2016, for general corporate purposes including Darlington Refurbishment project up to $700 million. Directive provides approval for subsequent loans not totalling more than $2.3 billion but is subject to concurrence by Shareholder with OPG's business plan.	Under credit facility, loans shall have a term not exceeding thirty years. The interest rate will be based on the Government of Canada benchmark bond yield plus a spread based on a survey of market rates. Interest rate and term of each loan shall be determined by OEFC. Loan agreement signed on June 17, 2016.

Timing	Action	Details
December 2014 Board meeting	Subject to receiving Minister's Directive for general corporate purposes including Darlington Refurbishment project up to $800 million.	Under the credit facility, up to 50% of advances may have a term up to 30 years. The interest rate will be based on the Government of Canada benchmark bond yield plus a spread determined by OEFC. Received Minister's directive on December 18, 2014. Loan agreement was signed on December 22, 2014.
December 2013 Board meeting	Received Minister's Directive for general corporate purposes including Darlington Refurbishment project up to $500 million.	Under the credit facility, up to 50% of advances may have a term up to 30 years. The interest rate will be based on the Government of Canada benchmark bond yield plus a spread determined by OEFC. Loan agreement was signed on December 20, 2013.
April 2012 Board meeting	Received Minister's Directive for refinancing of maturing debt up to $400 million.	Under the credit facility, advances up to $200 million may have a term up to 30 years. The remaining $200 million may have a term up to 10 years. The interest rate will be based on the Government of Canada benchmark bond yield plus a spread determined by OEFC. Loan agreement was signed on April 26, 2012.
April 2011 Board meeting	Received Minister's Directive for refinancing of maturing debt up to $375 million.	Under the credit facility, each advance will have a term up to 30 years. The interest rate will be based on the Government of Canada benchmark bond yield plus a spread determined by OEFC. Loan agreement was signed on March 7, 2011.
September 2010 Board meeting	Received Minister's Directive for $700 million loan to OPG for the Lower Mattagami project.	Under the credit facility each advance will have a term up to 10 years. The interest rate will be based on the Government of Canada benchmark bond yield plus a spread determined by OEFC. Loan agreement was signed on March 7, 2011.
September 2009 Board meeting	Subject to receiving Minister's directives, approved the refinancing of maturing debt up to $970 million and an increase in the Niagara Tunnel loan to $1.6 billion.	The refinancing debt facility will have a term of one year; each advance will have a term up to 10 years. The interest rate will be based on the Government of Canada benchmark bond yield plus a spread determined by OEFC. Received Minister's directive on January 20, 2010 for refinancing up to $970 million of maturing debt. Loan agreement signed March 8, 2010. Received Minister's directive on April 22, 2010 for increase in the Niagara Tunnel loan to $1.6 billion and extension of the expiry date to December 2014. Amendment signed July 21, 2010.
June 2007 Board meeting	Pursuant to a Minister's directive dated June 11, 2007, approved a loan for up to $950 million for refinancing debt issued to OEFC and a loan for up to $500 million	Structured to provide advances in tranches. The ability to draw on the refinancing facility to expire on Dec 31, 2009, and the general corporate requirements facility expired on March 31, 2008 (OPG has fully drawn on this facility).

Timing	Action	Details
	for general corporate requirements.	Each advance shall have a term up to 10 years. The interest rate is based on the Government of Canada benchmark bond yield plus a spread determined by OEFC. Loan agreement for the general corporate requirements signed on June 14, 2007. Loan agreement for the refinancing maturing debt signed on July 6, 2007.
April 2006 Board meeting	Subject to receiving a Minister's directive, approved a loan for up to $400 million for the Portlands project and a loan for up to $50 for the Lac Seul project.	Structured to provide advances in tranches over a 3 year period. Each advance shall have a term as may be determined by the Chief Executive Officer of OEFC or his/her designate. Interest based on Government of Canada benchmark bond yield plus a spread determined by OEFC. Minister's Directives dated October 25, 2006. Loan agreements for the Portlands and Lac Seul projects signed on December 6, 2006.
September 2005 Board meeting	Pursuant to the Minister's Directive dated August 18, 2005, approved loan for up to $1 billion for the Niagara Tunnel project.	Structured to provide advances in tranches over a 5 year period commencing in 2005. Terms of each advance not to exceed 10 years. Interest based on Government of Canada benchmark bond yield plus a spread determined by OEFC. Loan agreement signed on September 21, 2005.
September 2005 Board meeting (cont'd)	Subject to receiving a Minister's Directive, approved a loan for up to $95 million for the Thunder Bay conversion.	Structured to provide advances in tranches over a 2 year period commencing late 2005 or early 2006. Terms of each advance not to exceed 10 years. Interest based on Government of Canada benchmark bond yield plus a spread determined by OEFC. Minister's Directive dated September 26, 2005. Loan agreement signed on November 14, 2005. In June 2006 the Government revoked its Directive to OPG on the Thunder Bay conversion project. OEFC and OPG terminated the loan agreement on September 29, 2006.
June 2005 Board meeting	OEFC Board was advised that OPG had approached OFA/OEFC to get funding indications for Niagara Tunnel Project. While the government had provided overall support for the Niagara Tunnel Project, OEFC Board advised that staff would be coming back to the board to request a loan once a directive had been obtained	

Timing	Action	Details
March 2005 Board meeting	Pursuant to a Minister's Directive, $600 million in loans was approved to address OPG operating cash flow funding requirements from April 1, 2005 to March 31, 2006	Structured to provide for drawdowns in 1 or more tranches at market rates for terms ranging from 3 to 7 years. Rates determined by OEFC. In May 2005, OPG borrowed $400 million, for a 7 year term at 5.715% (spread of 1.75% over the respective Canada bond)
	Loan approval for $98 million to OPG for a 5 year term commencing September 22, 2005	Loan to offset interest payments on loans due that day and to be extended at market rates determined by OEFC. Subsequently, OPG declined this loan due to higher than expected revenues.
December 2004 Board meeting	Extend $250 million March 22, 2005 debt maturity for another 5 years	Original average 5.62% borrowing cost maintained for extended loan
	Extend $250 million September 22, 2005 debt maturity for another 5 years	Original average 5.62% borrowing cost maintained for extended loan
	Loan $95 million to OPG for a 5 year term commencing Mar. 22, 2005	Loan to offset interest payments on loans due that day and 5.62% rate used for new loan

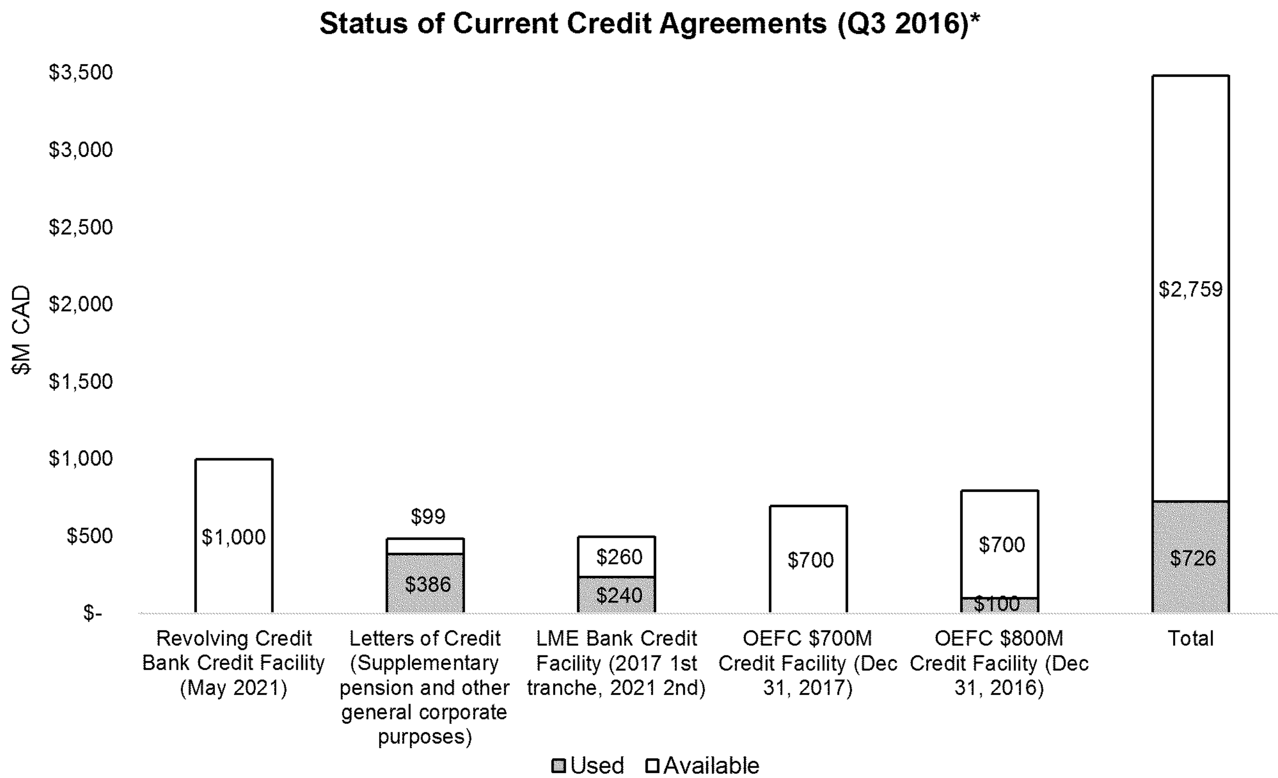
OPG Debt Maturity Schedule (at December 1, 2016):

Maturity Date	Coupon Rate (%)	Amount ($ m)
Dec 22, 2016	4.808	110
Jan 23, 2017	4.893	50
Apr 22, 2017	4.973	60
Jun 22, 2017	5.435	100
Jul 23, 2017	5.436	40
Sep 22, 2017	5.546	200
Sep 22, 2017	5.312	400
Oct 22, 2017	5.47	50
Jan 22, 2018	5.218	75
Mar 22, 2018	5.09	200
Apr 22, 2018	5.424	50
Jul 22, 2018	5.497	50
Oct 22, 2018	6.325	20
Jan 22, 2019	6.178	40
Mar 22, 2019	5.651	100
Apr 22, 2019	5.635	75
Jul 22, 2019	5.184	65
Oct 22, 2019	4.857	85
Jan 22, 2020	4.618	50
Mar 22, 2020	4.679	230
Apr 22, 2020	4.954	65
Jul 22, 2020	4.658	35
Sep 22, 2020	4.391	230
Oct 22, 2020	4.094	50
Jan 22, 2021	4.573	40

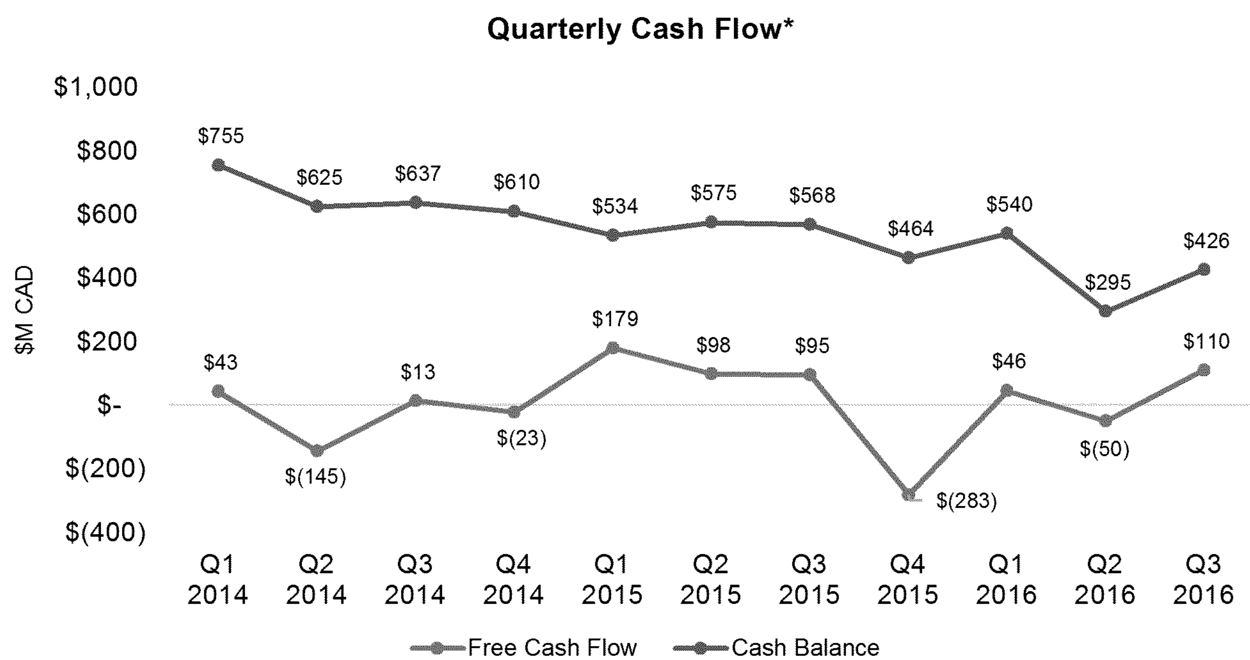
Apr 22, 2021	4.633	35
Jul 22, 2021	4.152	50
Oct 22, 2021	3.985	60
Jan 22, 2022	3.583	40
Apr 22, 2022	3.521	35
Jul 22, 2022	2.981	45
Oct 22, 2022	3.163	30
Jan 22, 2023	3.27	20
Apr 22, 2023	2.961	20
Nov 22, 2026	3.037	50
Mar 22, 2041	5.397	150
Sep 22, 2041	4.74	150
Apr 22, 2042	4.356	200
Nov 22, 2046	4.028	50
Total Outstanding		**3,405.0**

Status of Project Financing (at December 1, 2016):

Project	Amount Authorized under Loan Agreement	Total Borrowing to Date	Expiry Date of Loan Agreement	Status of Project
Corporate Credit Facility	$700 million	-	Dec 31, 2017	-
Corporate Credit Facility	$800 million	$100 million	Dec 31, 2016	-
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
Lower Mattagami	$700 million	-	June 30, 2016	Completed

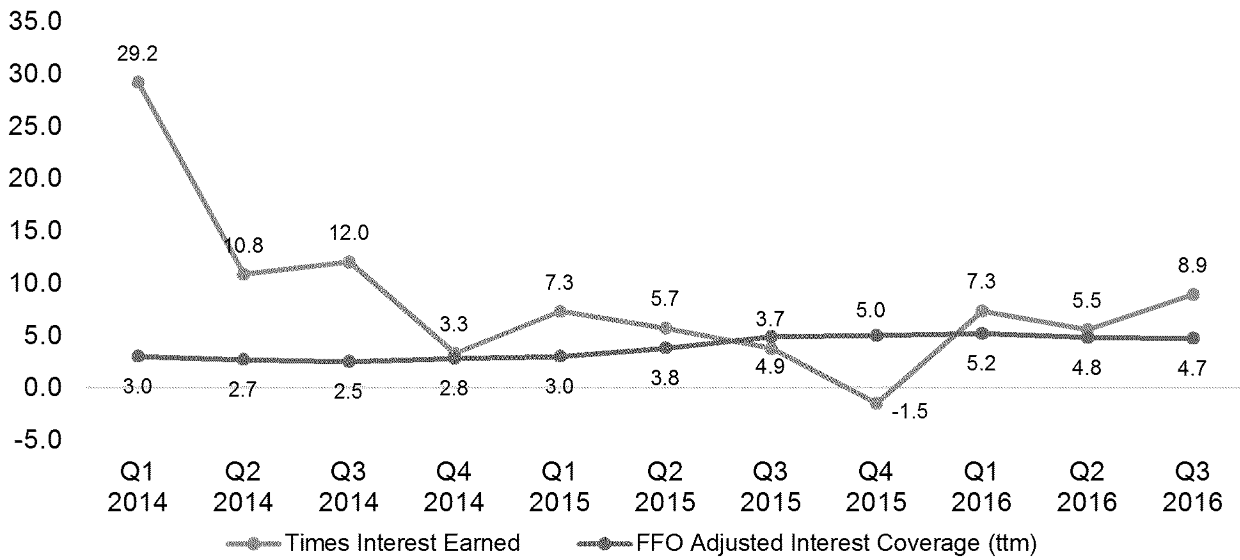


*Includes $100M borrowed from $800M credit facility on November 22, 2016; excludes the $150M outstanding Letters of Credit for the accounts receivable co-ownership agreement; label dates indicate expiry of the agreements.



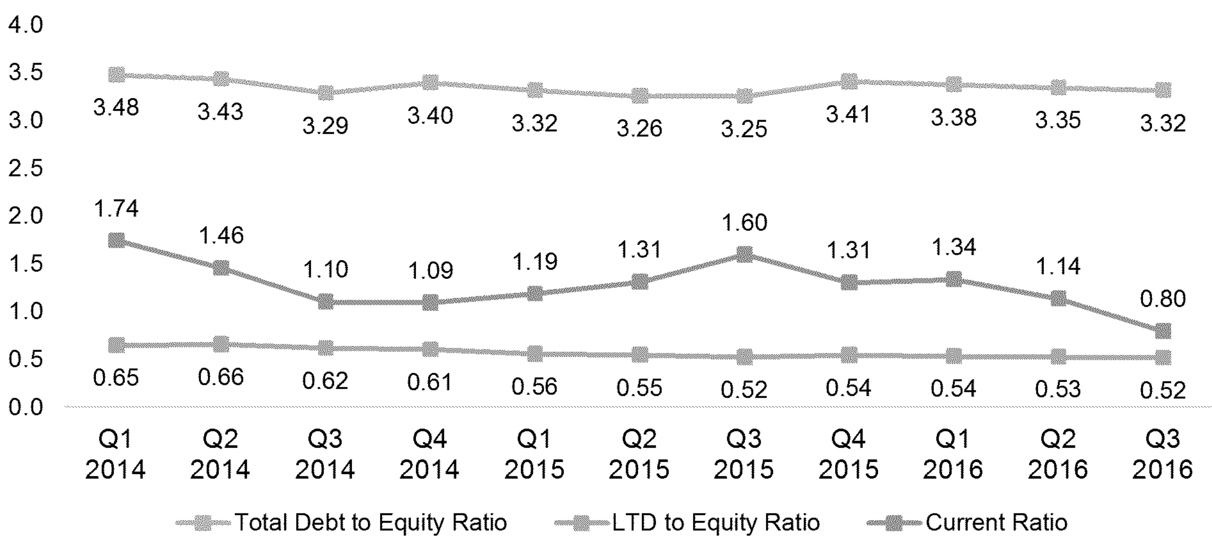
*Free Cash Flow defined as Cash Flow from Operations – Capital Expenditures.

Interest Coverage*



*FFO adjusted interest coverage is an indicator of OPG's ability to use cash flow from operations to meet interest obligations over a trailing twelve month (ttm) period. It is defined as funds from operations divided by adjusted interest expense. Funds from operations (FFO) is cash flow from operations adjusted for interest and changes in non-cash working capital balances. Adjusted interest expense adjusts the interest expense on the financial statements, mainly for capitalized interest for fixed and intangible assets that would not hit the statements as an expense until later periods through depreciation.

Solvency & Liquidity Ratios



Prepared by:
Capital Markets Division and Electricity Finance Branch
December 7, 2016

CONFIDENTIAL

OEFC PROGRAM STATUS, EXPOSURES AND RESULTS

As at 31Oct2016

Table of Contents/Executive Summary

A. Debt Interest Expense

OEFC Interest Expense ($ millions)

FY 16/17 Accrual Basis	16 Budget	Current
Gross Interest Expenses	1,216.0	1,213.0
Interest income	192.0	192.0
OEFC Interest Expense	**1,024.0**	**1,021.0**
Increase/(Decrease)		(3)

B. Debt Term Selection[1]

(CAD Millions)

Term	31Oct2016	% of Planned Borrowing	Planned Borrowing
2 to 3.5 years	-	-	
3.5 to 5.5 years	-	-	
5.5 to 7.5 years	-	-	
7.5 to 10.5 years	-	-	
> 10.5 years	-	-	
Total Long-Term Fixed Rate Borrowing (Proceeds)	-	-	0
Floating rate borrowing	-	-	0
OEFC loans to OPG	-	-	0
Total Long-Term Borrowing (Proceeds)	**-**	-	**0**
Weighted Tenor of the OEFC's Borrowing (years)	NA		
Target range (years)	NA		

[1] borrowings included on a trade date basis

[2] per Budget Financing Table. No new borrowing is projected for OEFC in 2016-17.

Debt Buybacks

Year-to-31Oct2016

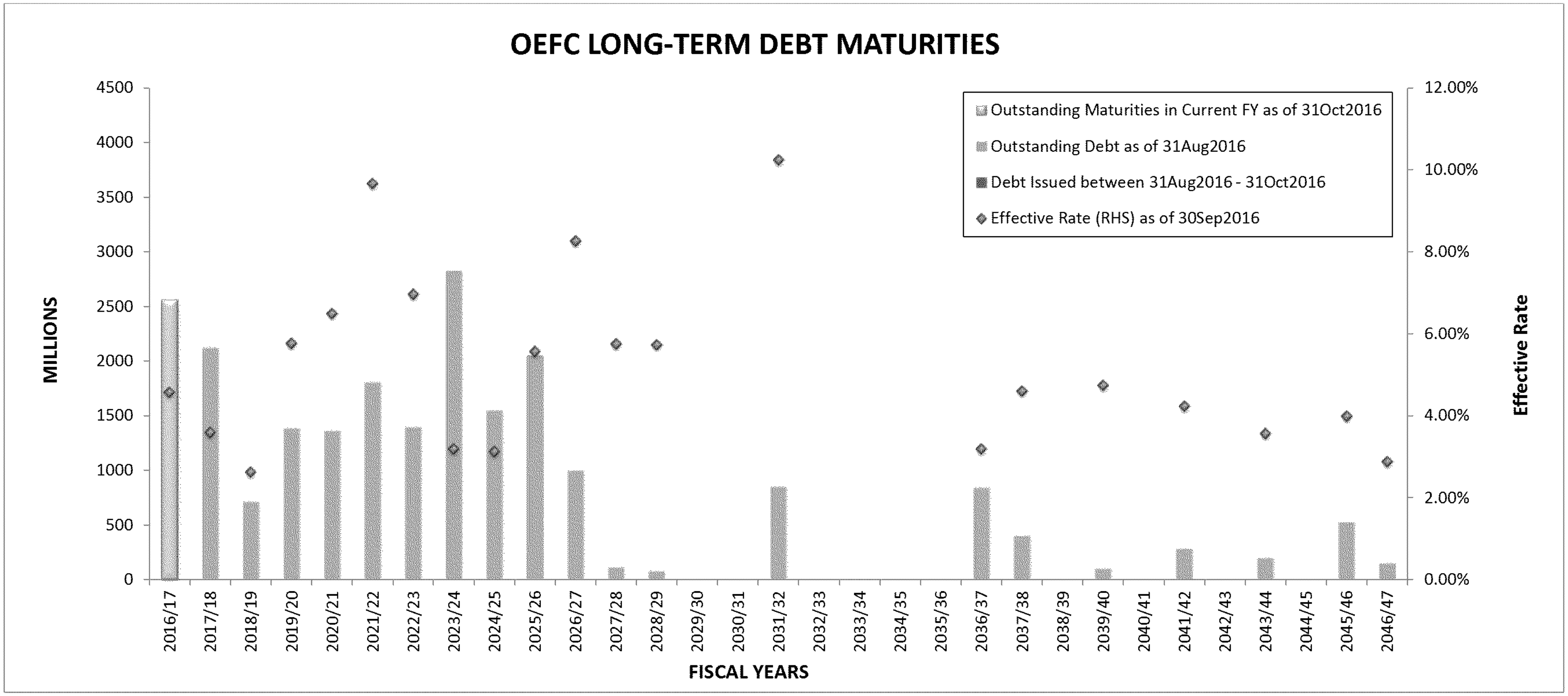
	CAD Millions	
	Nominal Value	Market Value[1]
Existing debt bought back		
New debt issued		
Net debt issued under buybacks[2]	-	-
Profit/(Loss) on buybacks[3]	-	-

[1]Actual dollars received or paid for bonds

[2] Difference between par values and market values respectively of bonds bought back and new bonds issued to finance the buybacks; the transactions (purchase and the issue on each buyback situation) are done on a risk-neutral basis

[3] Present value savings of the difference in yield between the bond issued and the bond bought back

C. Long-Term Debt Maturities



$2.98 billion of debt is projected to mature in FY 2016/17, of which $2.56 billion was outstanding as at 31Oct2016.

D. Borrowing

Program	PROGRESS TO 31Oct2016
New Borrowing (Province & OEFC)	As of October 31, 2016, the percentile rank for Regular issues was 48.6% which is within the target band of 45th to 55th percentile; the percentile rank for Strategic Foreign issues was 72.5% which is within the target band of 50th to 75th percentile.
New Borrowing (OEFC)*	There was no New Borrowing for OEFC as of October 31, 2016.

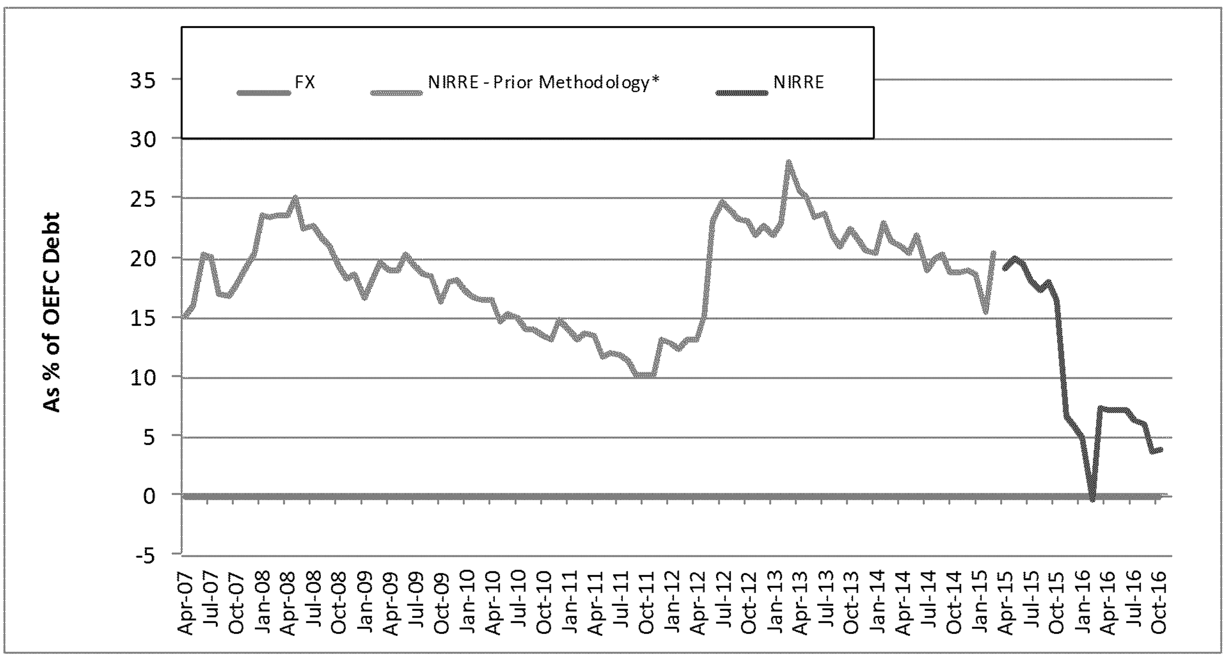
*Note: This percentile rank is not adjusted for even pace.

E. Foreign Exchange and Interest Rate Reset Exposure

Foreign Exchange Exposure	31Aug2016	31Oct2016	Policy Limit
Percentage of OEFC debt	0.02%	0.03%	5% max
Exposure in CAD millions	5	6	

Net Interest Rate Reset Exposure

(net of liquid reserves)	31Aug2016	31Oct2016	Other Info
Gross Floating Exposure as a % of OEFC debt	7.7%	7.9%	4.9% to 8.9% year-end target range
Gross Floating Exposure in CAD millions	1,794	1,813	
NIRRE as a % of OEFC debt	6.2%	4.1%	35% max policy limit
NIRRE in CAD millions	1,451	946	



*Reporting methodology was revised commencing FY 2015-16.

F. Credit Risk

Compliance (31 Aug 2016 – 31 Oct 2016)

* No counterparty exceeded its credit exposure limit.

No new Counterparties and Issuers were approved

G. Rating Changes

Rating Changes of Counterparties with Exposure

None

Rating Changes of Counterparties without Exposure

Counterparty/Issuer	Date	Agency	Credit Action	From	To	Exposure 10/31/2016	Change in Exposure from 8/31/2016	Actions Required
Deutsche Bank AG	7-Oct-16	DBRS	Outlook	A (Low)	A (Low) (N)	0	0	None

ONTARIO ELECTRICITY FINANCIAL CORPORATION
LITIGATION STATUS CHART SUMMARY

FILE INFORMATION		COMMENCEMENT DATE	NATURE OF CLAIM	INDEMNIFICATION	STATUS	AMOUNT	ESTIMATED EXPOSURE	LEGAL COUNSEL
1.	Kirkland Lake Power Corporation v. Ontario Electricity Financial Corporation; Iroquois Falls Power Corporation v. Ontario Electricity Financial Corporation; Cochrane Power Corporation v. Ontario Electricity Financial Corporation; Cardinal Power of Canada, L.P. and MPT Hydro L.P. v. Ontario Electricity Financial Corporation; Lake Superior Power Limited Partnership, Beaver Power corporation and Algonquin Power (Nagagami) Limited Partnership v. Ontario Electricity	December 27, 2012	Notice of Application under the Kirkland Lake Power Corporation Power Purchase Agreement related to the consequences flowing from Ontario Regulation 398/10 which provided for a change in the allocation of Global Adjustment to Wholesale Industrial Customers	N/A	Hearing completed on May 22, 2014. Conference call with Judge on August 19 re request by judge for further submission by OEFC on method by which GA component of index is calculated. Submission and responses from plaintiffs completed October 3, 2014 On March 12, 2015 the court delivered a decision in favour of the Plaintiffs The judgement orders OEFC to include the Global Adjustment in the calculation of TMC using the methodology applied prior to 2011 retroactive to January 1, 2011. On April 10, 2015 OEFC filed Notices of Appeal OEFC may seek to have the judgement suspended pending the resolution of the appeal.		OEFC disputes the claim	Timothy Pinos Emily Larose Cassels Brock & Blackwell LLP 2100 Scotia Plaza 40 King Street W Toronto Canada M5H 3C2 tel 416 869 5784 fax 416 350 6903

	Financial Corporation; N-R Power and Energy Corporation, Algonquin Power (Long Sault) Limited Partnership and N-R Power Partnership v. Ontario Electricity Financial Corporation				On April 13, 2015 the Applicants delivered a draft bill of costs claiming $1.3 million of actual costs and seeking recovery of $800 thousand. OEFC will object to the bill of costs and seek to have the costs award deferred until the appeal is resolved. On April 27, 2015 Kirkland Lake, Cochrane and Iroquois Falls filed Notices of Cross Appeal with respect to the "Material Change" issue which was found in favour of OEFC in the decision. OEFC Appeal factum filed June 5, 2015 OEFC also filed a motion to adduce additional evidence at the appeal. Cross examination on OEFC affidavit filed in support of motion completed September 16, 2015. Applicant's factum delivered October 16, 2015 OEFC responding factum on the Applicant's cross appeals delivered November 2, 2015				

					Appeal heard December 14 & 15 2015. On April 19, 2016 the Court of Appeal dismissed the appeal. On June 20, 2016 OEFC filed an application for leave to appeal to the Supreme Court of Canada. The NUG Response was filed on August 17, 2016 OEFC filed a Reply on August 29, 2016. The application was referred by the Law Branch of the Supreme Court to a three judge panel for consideration on December 5, 2016. The decision of the Supreme Court of Canada on the application for leave is now expected in mid-January 2017 . Subsequent to the denial of the appeal OEFC made application to a single judge of the Court of Appeal for a			

					stay of the retroactive payments required under the Judgement. The application for stay was denied on August 5, 2016. On August 11, 2016 OEFC filed a motion to have the denial of the stay reviewed by a three judge panel of the Court of Appeal. This motion was denied on September 13, 2016. OEFC made the retroactive payments required under the Judgement in the amount of approximately $180 million on October 21, 2016. These payments will be fully recoverable through the Global Adjustment			

2	The Power Limited Partnership v. Ontario Electricity Financial Corporation	Notice of Action issued October 18, 2012; Notice of Action delivered to OEFC January 23, 2013	Claim under the Nipigon High Falls PPA for • damages for breach of contract or negligence in the amount of $6,000,000, • a declaration that a "First Amended PPA" is binding or rectification of the "Second Amended PPA", and • prejudgment and post judgement interest	N/A	OEFC statement of defence filed March 25, 2013 OEFC Offer to Settle served June 12, 2013. OEFC document discovery completed September 26, 2014 Offer to Settle received from TPLP on November 4, 2014. The offer provides for payment for production from the facility on the same basis as offered by OEFC and an additional payment of $2.1 million TPLP Offer to Settle not accepted by OEFC OEFC has brought a motion for summary judgement to seek dismissal of the TPLP claim OEFC has delivered affidavits in support of the motion and has received the responding affidavits from TPLP Cross examinations on the affidavits of both parties completed August 26, 2015 TPLP has brought a motion for access to privileged documents referred to in the OEFC responses to	Too early to determine.	A number of claims relate to issues under the PPA which have been the subject of discussion between TP LP and OEFC and with respect to which OEFC has made offers to settle which have not been accepted by TPLP	Timothy Pinos Emily Larose Cassels Brock & Blackwell LLP 2100 Scotia Plaza 40 King Street West Toronto Canada M5H 3C2 tel 416 869 5784 fax 416 350 6903

					undertakings on cross-examination returnable December 8, 2015 OEFC factum on motion for summary judgement to be delivered December 18, 2015 TPLP factum due to be delivered January 13, 2016 Motion for Summary Judgement heard January 20, 2016 Motion for Summary Judgement granted July 7, 2016 Notice of Appeal filed by TPLP August 4, 2016. TPLP abandoned its appeal on September 14, 2016. This litigation is now concluded. On September 15, 2016 OEFC outside counsel delivered a request to TPLP's counsel for for payment of the $240,000 costs award granted to OEFC. TPLP and OEFC have agreed that the costs award be satisfied by the delivery of15 post-dated cheques			

					for $16,000 dated from Nov. 1, 2016 to Jan. 1, 2018. These cheques have been delivered by TPLP. This matter is now concluded.			

OEFC BOARD BRIEFING
NUG UPDATE
December 16, 2016

NUG CURTAILMENT

- IESO is currently engaged with several NUG owners, in consultation with staff for OEFC, to explore potential curtailments of gas-fired NUG facilities.
  - IESO is proposing to offer curtailment for all production over the remainder of the existing contract terms for contracts expiring pre-2020 or for up to the next two years for contracts expiring post-2020.
  - IESO is expected to be the counterparty to the curtailment agreements. As such, OEFC would execute PPA termination agreements with NUGs which are curtailed for the remainder of their term and PPA suspension agreements with NUGs which are curtailed for up to two years but expire post 2020.

- IESO is aiming to have curtailments begin at the start of 2017. Staff for OEFC will work with IESO staff on implementing any curtailments agreed to by IESO and NUGs.
  - IESO staff have indicated that a direction to curtail NUGs may be received by December 19, 2016, with curtailments expected to be effective January 1, 2017.
  - To enable, OEFC would have to execute PPA suspension / termination agreements by December 31, 2016.

- IESO is currently in discussions with Atlantic Power, TransAlta and Northland Power with respect to the following facilities:

<table>
<tr><th>Owner</th><th>Facility Name</th><th>Fuel</th><th>Capacity (MW)</th><th>Location</th><th>PPA Expiry Date</th></tr>
<tr><td rowspan="2">Atlantic Power</td><td rowspan="2">North Bay Power Plant</td><td>Natural Gas</td><td>31</td><td rowspan="2">North Bay</td><td rowspan="2">31-Dec-2017</td></tr>
<tr><td>Waste Heat</td><td>9</td></tr>
<tr><td rowspan="2">Atlantic Power</td><td rowspan="2">Kapuskasing Power Plant</td><td>Natural Gas</td><td>30</td><td rowspan="2">Kapuskasing</td><td rowspan="2">31-Dec-2017</td></tr>
<tr><td>Waste Heat</td><td>10</td></tr>
<tr><td>TransAlta</td><td>Mississauga Cogeneration Plant</td><td>Natural Gas</td><td>110</td><td>Mississauga</td><td>31-Dec-2018</td></tr>
<tr><td>Northland Power</td><td>Iroquois Falls Power</td><td>Natural Gas</td><td>126</td><td>Iroquois Falls</td><td>1-Dec-2022</td></tr>
<tr><td rowspan="2">Atlantic Power</td><td rowspan="2">Nipigon Power Plant</td><td>Natural Gas</td><td>32</td><td rowspan="2">Orient Bay</td><td rowspan="2">31-Dec-2022</td></tr>
<tr><td>Waste Heat</td><td>8</td></tr>
</table>

- Pending receiving a Directive from the Minister of Energy, IESO is expecting to execute the following curtailments by December 31, 2016:
  - 1 year curtailment agreement for North Bay and Kapuskasing until PPA expiry. To enable, OEFC is expected to be requested to execute PPA termination.
  - 2 year curtailment agreement for Mississauga until PPA expiry. To enable, OEFC is expected to be requested to execute PPA termination.
  - 2 year curtailment agreement for Nipigon. To enable, OEFC is expected to be requested to execute PPA suspension agreement.

- 4 month curtailment agreement for Iroquois Falls, during which discussions will take place for a longer term curtailment agreement. To enable, OEFC is expected to be requested to execute PPA suspension for 4 months, followed by further action based on discussions.

Estimated Savings

- Staff understand that the IESO position on NUG curtailment payments is that they would be equal to the forgone PPA payment less variable operating and gas costs.
  - Carbon costs that the NUG would incur if it operates after January 1, 2017, would not be deducted from the PPA payment in determining the curtailment payment.
  - By deducting the variable operating costs and avoided gas costs from the PPA payment in determining the curtailment payment, the savings resulting from these avoided costs would be attributed to ratepayers.

- Navigant has provided analysis of the curtailments. The table below outlines the current estimates of the curtailment payments and ratepayer savings.
  - If power that would have been produced does not need to be replaced, e.g., overnights or on weekends during periods of surplus baseload generation, the savings to ratepayers could be higher.

	North Bay	Kapuskasing	Nipigon	Mississauga
Curtailment Length	1 year	1 year	2 years	2 years
Forgone PPA Payments ($M)	45	45	95	270
Total NUG Curtailment Payment ($M)	35	35	75	210
Total Ratepayer Savings ($M)	3	3	5	20

- The savings estimates above are subject to change as Navigant refines its analysis and IESO attempts to conclude negotiations with NUGs.
  - IESO has not yet provided information on the terms and conditions for the four month curtailment of Iroquois Falls.

Staff Comments

- If natural gas PPAs are terminated, to be replaced by IESO curtailment agreements, it may result in some or all of the remaining NUG liability being written-off, eliminating future amortisation revenue.
  - At the beginning of 16-17, the remaining NUG liability was $307 million.
  - By 2017-18, annual amortisation revenue will have declined to under $100 million.
  - OEFC's balance sheet includes a liability for the NUG contracts which is being amortised to revenue over the schedule shown below. This amortization revenue for OEFC has a positive dollar for dollar fiscal impact on the Province's annual surplus/deficit position.

OEFC Liability for Power Purchase Agreements ($ millions)							
	15-16	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**	**21-22**
Liability, beginning of year	479	307	178	104	63	33	5
Amortisation	172	129	74	41	30	28	5
Liability, end of year	**307**	**178**	**104**	**63**	**33**	**5**	**0**

Next Steps

- Staff for OEFC would continue to work with IESO on its curtailment discussions with relevant NUGs.

- To enable the implementation of any curtailments agreed to by IESO and NUGs, it is recommended that OEFC would execute PPA suspension/termination agreements with NUGs.

Mississauga December Curtailment

- IESO sent a letter to OEFC on December 1, 2016 in support of a curtailment offer presented by TransAlta, noting that the curtailment would help facilitate the longer term curtailment of Mississauga, under ongoing discussions.
  - IESO reviewed the curtailment calculations in TransAlta's proposal and is of the opinion that the proposal is on substantially the same basis and terms as is being explored in the longer term agreement with IESO.

- In order to facilitate the longer term curtailment agreement currently being negotiated by IESO, OEFC accepted the paid curtailment offer from TransAlta for curtailing all production from their Mississauga facility for the remainder of December 2016.
  - OEFC agreed to a curtailment payment of $11,830 per hour for all hours, once TransAlta fully curtailed the facility, which was reportedly in the morning of December 5th [TBC].
  - OEFC requires that the curtailment be continued, uninterrupted, for the remainder of December 2016.
  - The anticipated curtailment payments would total an estimated $7.7 million, which would be an estimated $2.4 million lower than the expected payments that OEFC would make to TransAlta under the PPA if it were to continue to generate electricity.
  - After the cost of replacement power is accounted for the proposal is expected to provide ratepayers a net benefit of $1 million for the term of the curtailment, based on a December Hourly Ontario Energy Price (HOEP) of $20/MWh.
  - Actual savings would depend on the actual cost of replacement power. The IESO website reports that the weighted average value of HOEP in December for the past three years has ranged from $31/MWh in 2013 to $11/MWh in 2015.

KINGSTON PPA EXPIRY

- On June 16, 2015, Northland Power requested discussions on an extension to the Kingston Cogen PPA which expires on January 31, 2017.
  - The Kingston Cogen PPA provides that Kingston Cogen (KCLP) may request that the PPA be renewed for a further term of five years minimum, subject to rates, terms and conditions to be negotiated at that time.
  - OEFC and Northland Power have been unable to agree on rates or terms and conditions for an extension.

Current Status

- On December 8, 2016, Northland sent a letter to OEFC which states that failure of an agreement on contract terms before the end of the PPA term will force legal proceedings.
  - OEFC has previously informed Northland Power that in administering the terms of the PPA OEFC cannot, in its commercial interest and meeting its mandate, offer or agree to rates in excess of the market value of power that would be delivered if an extension was provided.
  - Northland Power views OEFC's position as unreasonable and notes that the PPA states that all parties act reasonably in performing its obligations under the PPA. Northland states that, "[a]ccording to KCLP's legal counsel, the intention of the reasonable terms contract language is that both parties will negotiate reasonable business terms for a minimum of five years which would mean adequate power pricing to operate the plant as a viable business for an additional five years minimum term."

- The December letter is a follow-up to a November 2nd, 2016 Northland letter.
  - Northland affirmed its belief that the contractual responsibility and obligation to negotiate reasonable terms with KLPC for at least a five year extension still rests with OEFC.
  - Northland believes that its January 11, 2016, baseload contract offer to OEFC at an estimated $59/MWh is reasonable and competitive. Actual price would be subject to gas costs, including carbon costs.
  - Additionally, Northland also affirmed its belief that OEFC's offer of $30/MWh is not reasonable as it only amounts to the variable cost of energy in Ontario, and does not consider fixed costs related to running a generation business.
  - Northland further stated that section 4.1 of the Kingston PPA states that Kingston can extend its contract with OEFC for a minimum of 60 months noting terms to be negotiated.
  - Northland also notes section 18.5 of the PPA which states that each party will act reasonably at all time in the performance of its obligations.

- On November 16, 2016 OEFC provided a response to Northland's November 2 letter.
  - OEFC re-stated that section 4.1 of the PPA the extension is subject to rates, terms and conditions to be negotiated at that time.
  - OEFC reaffirmed that with respect to a request to extend the PPA under section 4.1, OEFC cannot, in its commercial interest and meeting its mandate, offer or

agree to rates in excess of the market value of power that would be delivered in response to a request for an extension period.
  - OEFC further explained that it is the mandate of the IESO to determine long-term system needs and how to meet those needs, including the option to contract, or re-contract, for long-term generation.
  - Throughout the year, staff for OEFC have helped facilitate discussions between Northland and IESO in Northland's attempt to explore avenues for re-contracting Kingston.
  - It is outside of OEFC's mandate to make a determination on the need for, or terms at which to contract for or procure, additional electricity supply.

- The December 8, 2016, Northland letter provided a revised proposal which included the following elements:
  - OEFC works with IESO and Kingston to negotiate a capacity agreement with the intention to assign the agreement to IESO for administration of the contract.
  - Kingston is paid $5/kW-month ($6.6 million per year) for 110 MW of capacity for five years beginning Feb. 1, 2017.
  - Kingston will be available for day ahead dispatches.
  - Kingston is given the opportunity to contract for any new procurements by IESO for ancillary services.
  - Kingston may offer into export markets with advanced approval from IESO.
  - IESO gives Kingston a right of first refusal to participate in a capacity market should it develop prior to the end of the five year extension.

Staff Comments

- Section 4.1 of the PPA does not obligate OEFC to re-contract Kingston for a minimum 5 year PPA.
  - OEFC's believes it is reasonable to not offer or agree to rates in excess of the market value of power. Therefore, OEFC is acting reasonably in performing its obligations under the PPA.
  - OEFC's position is that the contract language only permits the generator to request an extension. But, the provision of an extension is subject to rates, terms and conditions that are commercially reasonable to each of the parties separately. Northland's position suggests that the rates, terms and conditions must be reasonable only for Northland.
  - Staff for OEFC contacted the IESO, initially in 2015 and for an update in spring 2016, to discuss IESO's assessment of the value of the Kingston facility, and in particular where there is additional value to capacity and generation from the Kingston Cogen that is not reflected in the offer made by OEFC.
  - Based on its analysis the IESO communicated to OEFC in June 2016 its projection that Kingston Cogen has little or no value to the electricity system of the next five years, and that a five year contract would not provide capacity value to the electricity system.

- It is unclear whether IESO could consider supporting Northland's latest offer since IESO has previously indicated that a five year contract for Kingston would not provide capacity value to the electricity system. As well, an IESO report in 2015 on NUGs and direction from the Minister of Energy in December 2015 indicate that

NUG capacity will generally not be contracted for this period.

- The recommendations of an IESO report in 2015 stated that entering into new long-term contracts for additional NUG generation capacity is not currently recommended. The report does note that in certain circumstances there may be a rationale to enter into contracts with certain NUGs for the various reasons: a)The timelines for capacity auctions and capacity gaps do not align, b) a desire to meet specific government policy objectives, or c) a local system need is identified.
- Following the IESO report, a direction from the Minister of Energy in 2015 stated that IESO discontinue negotiations for new contracts with NUGs.

Appendix

Extension Language: section 4.1 of the Kingston PPA which states the following:

> *This Agreement may be renewed upon request by the Generator for a further term of 60 consecutive Months minimum, subject to rates, terms and conditions to be negotiated at that time*

Language on acting reasonably: section 18.5 of the Kingston PPA which states the following:

> *Each party agrees that it shall at all times act reasonably in the performance of its obligations and the exercise of its rights under the agreement.*

GLOBAL ADJUSTMENT LAWSUIT

- On June 20, 2016, OEFC submitted an application for leave to appeal to the Supreme Court of Canada the April 19, 2016, decision by the Ontario Court of Appeal that dismissed OEFC's appeal of the March 12, 2015, lower court decision.
  - OEFC's position has consistently been that it has administered these power purchase agreements in a manner that it believes has been correct.

- It is the view of OEFC's external counsel that the leave application raises issues of broad public importance and the matter addresses fundamental issues of procedural fairness for litigants and contracting parties.
  - The arguments raised by OEFC speak to the extent to which judges may exercise their discretion to redefine the case presented to them by the parties and reshape the contracts they are asked to interpret.

- The leave to appeal application has been referred to a panel of the Supreme Court for review. A decision from the panel is likely to be issued in mid-January.

Retroactive Payments to Applicant NUGs

- On September 13, 2016, the Ontario Court of Appeal denied OEFC's motion for a stay of the court order that requires payment of retroactive amounts to Applicant NUGs in the GA lawsuit that result from the March 12, 2015, decision of the Ontario Superior Court of Justice.
  - The March 12, 2015, decision determined that OEFC has incorrectly calculated payment provisions of 12 Power Purchase Agreements.
  - Under the Motion to Stay, OEFC would not have been required to make retroactive payments pending the decision of the Supreme Court of Canada on the Leave to Appeal.

- As a result of the dismissal on the stay, on October 21, 2016, OEFC made payments of $178 million to the applicant NUGs for deliveries during the period from January 2011 to January 2015 that predates the Ontario Superior Court decision.
  - OEFC will recover these payments from electricity consumers along with other NUG costs through the Global Adjustment mechanism, as provided for under statute. This recovery is done through the monthly settlement process of the Independent Electricity System Operator (IESO).
  - In addition to the payments to the NUGs, Applicant NUGs with Generator Debt owed to OEFC are entitled to retroactive increased rates totalling approximately $3.5 million. This amount will be recovered by OEFC from IESO and applied to reduce Generator Debt. Therefore, OEFC will recover a total of approximately $182 million from the IESO.
  - For the period from February 2015 onwards, the applicants NUGs have been paid at rates determined in accordance with the Ontario Superior Court decision.

- The recovery of the retroactive payments from the IESO is occurring over three months (October to December 2016).
  - The Deputy Minister of Energy sent a letter to the CEO of OEFC requesting that recovery of the retroactive payments occur over three months in order to ensure more consistent treatment across electricity consumer classes in relation to the impact of the recovery – that spreading the impact of costs over a three-month period for Class A and non-Regulated Price Plan Class B electricity consumers would ensure greater consistency with the smoothed cost recovery for Regulated Price Plan (RPP) electricity consumers.
  - OEFC accounting reported that IESO confirmed that recovery of the retroactive amount can be done in three instalments.

- The above retroactive payments are in respect of Applicant NUGs to the GA lawsuit. Should OEFC be ultimately unsuccessful at the Supreme Court, other, non-applicant NUGs with similar contract provisions that have entered into a standstill agreement with OEFC would then seek recovery of retroactive payments and adjustments to their contract prices going-forward.

<u>Ratepayer Impact</u>

- For electricity users on the RPP, the impact of the retroactive payment on the Global Adjustment portion of the costs recovered through RPP prices would be smoothed. For residential and other consumers on the Regulated Price Plan, the impact may be smoothed over 12 months, as RPP prices are typically set to recover the estimated costs over a 12 month time frame, resulting in an increased pressure of approximately $1.10 on the average monthly residential bill over the 12 month period, an increase of 0.7 per cent.
  - For RPP consumers, this increased pressure would partially offset the recent rate mitigation initiative. The rate mitigation initiative is estimated to reduce the average residential electricity bill by approximately $11.
  - Note as well that the actual overall OEB setting of RPP prices will depend on other, non-GA factors.

Strategic Project Finance Branch
Corporate and Electricity Finance Division
December 9, 2016

2016-19 OEFC Business Plan Quarterly Performance Report
Projected to December 31, 2016

Objective	Targets	Division	Status	Comments
MANAGE DEBT AND OTHER LIABILITIES COST-EFFECTIVELY				
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 2016-17 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 cashflows and debt maturity constraints.	The OEFC has existing long-term debt maturities totalling $3.0 billion, $2.1 billion, and $0.7 billion in 2016-17, 2017-18 and 2018-19 respectively. The requirement for refinancings or new borrowings to take into account expected cashflows to OEFC, including from the broadening of ownership of Hydro One. The borrowing strategy for OEFC will be presented in the 2016-17 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.	Capital Markets		There is currently no long-term borrowing forecast for OEFC in 2016-17. As such, there is no percentile rank for regular issues or comparison to a target range. There is also, therefore, no percentile ranking for strategic foreign borrowing.

2016-19 OEFC Business Plan Quarterly Performance Report
Projected to December 31, 2016

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.)	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.	Legal		Hydro One is in on-going negotiations with several First Nations with respect to transitioning legal title from OEFC to Hydro One and OEFC is engaged to the extent necessary. Currently, there are no active Permit Claims involving OEFC.
MANAGE FINANCIAL RISK WITHIN APPROVED POLICY LIMITS				
Manage the debt portfolio within exposure policy limits. Exposures are expected to remain within policy limits throughout 2016-19.	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.	Capital Markets		Foreign currency exposure was 0.0% of outstanding debt as of December 1, 2016. Net interest rate resetting exposure was 4.27% of outstanding debt as of December 1, 2016. Foreign currency exposure, net interest rate resetting exposure and credit exposures were within policy limits through to August 31, 2016.
Setting risk management policies to ensure programs are managed in a prudent and cost-effective 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.	Risk Control		Revisions to the OEFC Market Risk Policy are expected to be presented for approval by the OEFC Board of Directors on December 16, 2016. On a year-to-August 31, 2016 basis, interest and FX rate exposures were calculated and reported on a daily and monthly basis, respectively. Stress testing results were reported to the BSC on a monthly basis.

	Monthly stress testing is performed on the OEFC's credit exposures.			
MANAGE AND ADMINISTER THE OEFC POWER SUPPLY CONTRACTS AND OPA AGREEMENT IN SUPPORT OF ITS IEI DEMAND MANAGEMENT PROGRAM				
Minimize NUG costs to ratepayers by utilizing arrangements such as curtailment or incremental power transactions.	Produce cost savings through curtailment and other arrangements with the NUGs while protecting the interests of the ratepayers.	Capital Markets		During the period from April 1, 2016 to October 31, 2016, IESO made 6 requests for NUG curtailments to assist in its management of surplus baseload generation. Curtailment savings from April 1, 2016 to October 31, 2016 totalled $12.8 million.
Negotiate any necessary revisions to the NUG contracts.	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.	Corporate & Electricity Finance Division		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, including evaluating contract change requests, such as requests for financial support and for contract extensions, with a view to minimizing ratepayer impacts. Ongoing support for outstanding NUG litigation including development of any required analysis. Based on support from IESO, 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.
Provide effective administration of NUG power purchase agreements (PPAs).	Maintain and improve operational systems, applications and infrastructure as required.	Finance & Treasury Division		PPAs continued to be managed effectively with energy payments settled accurately and on a timely basis.

	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.			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 indice 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 & facta for various legal proceedings as required.

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.	Corporate & Electricity Finance Division/ Finance and Treasury Division		OEFC continues to receive invoices from the IESO for DRC offset payments under IEI Stream 2 and Stream 3 contracts.
PROVIDE FINANCIAL ASSISTANCE AS REQUIRED TO THE ONTARIO HYDRO SUCCESSOR CORPORATIONS				
Facilitate the cash flow requirements of the successor corporations.	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.	Corporate & Electricity Finance Division		Providing analysis and advice on and facilitate OPG's external financing activities (commercial paper, public market project financing). Monitoring an $800 million credit facility to OPG for general corporate purposes, including 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 concurrence of OPG's 2016-18 Business Plan by the Minister of Energy, the OEFC will be expanding the credit facility to include availability of an additional $850 million for 2018. Monitored a $700 million credit facility with OEFC to provide financing for OPG's equity contribution to the Lower Mattagami project. OPG had indicated that no draw will be necessaryand the facility expired June 30, 2016, with no draws. Monitoring a $90 million loan refinancing and a $95 million credit facility extension to the IESO, both expiring April 30, 2017 to provide the IESO with flexibility to meet financing and liquidity

				requirements. The loan and credit facility were provided in Q1 2014-15 at revised amounts from the earlier \$78.2 million and \$110 million amounts respectively.
SUPPORT THE IMPLEMENTATION OF THE GOVERNMENT'S ELECTRICITY INDUSTRY POLICIES AND DETERMINE THE IMPACT ON OEFC				
Monitor the financial performance of the successor electricity corporations. Monitor, review and respond to developments and/or government policy initiatives in the electricity sector.	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 impact and financial benefits to OEFC from broadening ownership of Hydro One.	Corporate & Electricity Finance Division		Provided OEFC-related input for the Province's 2015-16 Public Accounts, FES 2016, and the Standing Committee on Public Accounts. Prepared submission packages including analysis and advice to Ministry of Finance's Corporate Quality and Service Division and Treasury Board Secretariat 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 *Electricity Act, 1998* for 15-16 Public Accounts, 16-17 and the PRRT process. Continuing to monitor and analyze the existing and potential impacts of Hydro One secondary offerings to OEFC and the Province's fiscal plan. Continuing to review and analyze monthly financial update meeting materials from OPG to monitor financial performance. Monitoring and providing analysis and advice on the impacts of OPG's multi-year business plans' 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, monitoring public OEB

				hearings, and monitoring of accounting issues that may have fiscal implications upon consolidation of OPG and Hydro One in Public Accounts. Provided analysis on the potential impact on OEFC of proposed electricity sector policy initiatives related to broadening Hydro One ownership. Provided analysis and advice in support of the remission of debt to facilitate a financial benefit provided to OEFC as per section 50.3 of the Electricity Act, 1998, resulting from broadening Hydro One ownership. Provided analysis and advice in support of the Province's pay down of debt and other payables to OEFC using proceeds from broadening Hydro One ownership related to the book value of shares sold.
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 and update the OEFC long-term cash flow analysis.	Finance and Treasury Division Corporate & Electricity Finance Division		Continuing to provide timely and accurate quarterly financial statements for the OEFC that pass the scrutiny of both the Board and the Office of the Auditor General. Prepared OEFC's 2015-16 annual financial statements, including working with the Office of of the Auditor General. Complex accounting issues required an extension of the submission date of the Annual Report as provided for in the Electricity Act, with the Annual Report and the financial statements to be approved and submitted within the extension period and in time for the inclusion of the latter in the Province's 2015-16 Public Accounts. Continuing to perform analysis on OEFC's long-term cash flow modelling, including taking into account long-term financial projections of OPG

				and Hydro One, projecting debt retirement charge and other revenues and modelling asset optimization outcomes.
Implement Directives from the Minister of Finance.	Timely and responsive implementation of Directives as required.	Various (CEFD, CMD, FTD, RCD)		Implemented a Minister of Finance Directive to OEFC to provide a $700 million credit facility to OPG for 2017 for general corporate requirements, including the Darlington Refurbishment Project (DRP), based on OPG's previously concurred with business plan. The credit facility was approved on June 17, 2016.

ONTARIO ELECTRICITY FINANCIAL CORPORATION
FORM ASSESSING THE EFFECTIVENESS
OF THE BOARD OF DIRECTORS
January – December 2016

Thank you for taking the time to complete the Ontario Electricity Financial Corporation Board of Directors (the "Board") eval uation. The Board Coordinator will compile the results anonymously and report consolidated findings for the Board's consideration and review.

The information in this form is collected under the authority of the *Electricity Act, 1998* (Ontario). Inquiries may be directed to: OFA Legal Director (A), Ontario Financing Authority, 1 Dundas Street West, Suite 1400, Toronto, Ontario M7A 1Y7. Telephone: (416) 325-8754

	Board Evaluation	Rating	Comments
1	The Board understands the corporation's mandate, strategic plan, and key issues.	3, 4, 4, 3, 4	
2	The Board receives and approves an annual 3-year business plan.	4, 4, 4, 4, 4	
3	The Board monitors achievements of OEFC's business plan and requires explanations or action as appropriate.	4, 4. 4, 3, 3	
4	The Board reviews communications strategy regarding the annual report and other publications by the Corporation.	2, 3, 2, 2, 4	Historical delays in releasing the annual reports limit the Board's ability to have effective input into associated communications strategies.
5	The Board is involved in the strategic planning process, including corporate goals and objectives.	3, 4, 3, 2, 4	
6	The Board regularly assesses strategic and operating risks and takes appropriate action as required.	3, 4, 4, 3, 4	The Board undertakes regular reviews of litigation issues and risks as well as assessing impacts from changes in the electricity sector (e.g., H1 IPO and related financial impacts)

	Governance		
7	The Board understands its role and the legal requirements and obligations under which it acts as Board, i.e. fiduciary duty, bylaws, Agency Establishment and Accountability Directive.	3, 4, 4, 3, 4	
8	The Board monitors financial and other indicators throughout the year, and takes appropriate action as required.	3, 4, 4, 3, 4	
9	The Board is diligent in verifying the integrity of its financial and management controls and systems.	3, 4, 4, 3, 4	
10	The Board is made aware of OEFC's communication with key stakeholders; ie. media, government, general public.	3, 4, 3, 3, 4	

Rating Scale

0	1	2	3	4
Not sure	Poor	Average	Good	Excellent

Role of Board / Conduct

11	The Board adequately monitors financial and other indicators to ensure that the Corporation is performing as planned.	3, 4, 4, 3, 4	This is a regular review and discussion at both the Board's audit committee and the full Board.
12	Necessary actions are taken to gain reasonable assurance that financial information of the Corporation (including the Corporation's annual and quarterly financial statements) is accurate and complete and represents fairly the Corporation's financial position and performance.	3, 4. 3, 3, 4	
13	The Board reviews and approves the annual report.	3, 4, 4, 4, 4	
14	The Board receives regular reports of finances, budget, legal compliance, and other important matters.	3, 4, 4, 3, 4	
15	The Chair and CEO are open with the Board about concerns.	4, 4, 4, 3, 4	

Board Operations / Performance

16	The Board identifies operational opportunities and risks.	3, 4, 3, 3, 3	
17	The Corporation has an adequate process for orienting and educating new Directors.	3, 4, 0, 0, 4	
18	Adequate attention is given to ongoing Board development, including presentations on topics of interest.	3, 4, 2, 2, 2	More presentations could be presented to members that go beyond standard board business.
19	The Board has a process for identifying possible successors to ensure that its size and appropriate composition is maintained.	3, 3, 2, 2, 3	
20	The amount of time spent on discussions of strategic and operational issues is sufficient.	4, 4, 2, 3, 3	
21	The Chair conducts the meetings in a respectful manner and ensures open communication and meaningful participation.	4, 4, 4, 0, 4	
22	The Chair communicates with directors between meetings as necessary and appropriate.	3, 4, 4, 3, 3	
23	The amount of information received in Board packages is appropriate for discussion and decision making purposes.	3, 4, 4, 3, 3	Some additional executive summary of technical discussion papers would be helpful.
24	The Board materials are received sufficiently in advance to adequately prepare for meetings.	3, 4, 3, 3, 3	
25	The Board has a meaningful opportunity for input into Board meeting agendas.	2, 4, 2, 3, 3	

Rating Scale

0	1	2	3	4
Not sure	Poor	Average	Good	Excellent

26	Members are involved and interested in Board work.	3, 4, 2, 3, 3	
27	Board is provided with an annual calendar of meetings.	2, 4, 4, 3, 2	
28	Attendance at meetings is satisfactory.	2, 3, 2, 2, 2	
29	Minutes are maintained with adequate documentation of discussion and decisions.	4, 4, 3, 3, 4	
30	The Board has an effective process for handling urgent matters between regularly scheduled meetings.	3, 4, 3, 4, 4	

Relationship/Interaction with Management

31	The Board has sufficient contact with the CEO.	4, 4, 4, 4, 4	
32	The Board has sufficient contact with other management personnel.	4, 4, 4, 3, 4	
33	The Board is able to function independently of management and has the mechanisms in place to maintain that direction.	2, 4, 3, 3, 4	
34	The Board understands the difference between its role and that of management.	3, 4, 4, 3, 4	
35	Day to day operational decisions are generally left for management to determine.	4, 4, 4, 3, 4	
36	The Board receives appropriate advice and counsel from management.	4, 4, 4, 3, 4	
37	The Board has opportunity to raise with the CEO or Chair any concerns over performance of senior staff.	3, 4, 3, 3, 4	

Board/Committee Structure

38	The Board and Committee structure is appropriate.	3, 4, 3, 3, 3	
39	The composition of the Board and the committees is appropriate.	2, 4, 3, 3, 3	Need more audit committee members
40	The method used to provide input into the selection of committee members is appropriate.	3, 0, 2, 2, 3	Have not been involved in a selection process in order to determine if it is sufficient.
41	All necessary skills are represented on the Board and all necessary skills are represented on its committees.	3, 4, 2, 2, 4	
42	Board diversity is appropriate.	4, 3, 3, 2, 4	At least it will be when the five new members join The Board could improve its diversity with some additional tweaking of gender representation (more female representatives).
43	The terms of reference for the Audit Committee are clear and appropriate.	3, 4, 3, 3, 3	

Rating Scale

0	1	2	3	4
Not sure	Poor	Average	Good	Excellent

44	The number and length of Board and Committee meetings is appropriate.	3, 4, 4, 3, 3	
45	Meetings are conducted to ensure open communication and meaningful participation.	4, 4, 4, 3, 3	
46	The Board and the committees regularly review their mandates and performance on the basis of skills and diversity.	3, 4, 3, 3, 3	

Information and Resources

47	Corporate documents including, agendas, financial statements, reports, by-laws, governing policies, directives, are provided to the Board.	3, 4, 4, 3, 4	
48	Managements' response to Board requests for information is thorough and prompt.	3, 4, 4, 3, 4	
49	The Board is thoroughly educated on the Corporation's policies and other corporate documents.	3, 4, 4, 3, 4	

Rating Scale

0	1	2	3	4
Not sure	Poor	Average	Good	Excellent

Additional Comments

The Board is heavily supported by the management team and CEO of the OFA. The OFA staff are very professional in their actions and responsive to the needs of the Board. Well done!

This is a well-run board which excellent staff support. Given the current environment, It would be beneficial to use Board time to talk about more general issues related to the electricity sector, to help set the broader context for decision making.

Rating Scale

0	1	2	3	4
Not sure	Poor	Average	Good	Excellent

CERTIFICATE OF COMPLIANCE AND DECLARATION OF OTHER POSITIONS

[To be completed annually by Directors]

(I) I acknowledge that I have read and considered the Code of Conduct for Directors of the OEFC Board and, as a member of the OEFC Board, agree to conduct myself in accordance with the Code.

(II) I confirm that:

1. I have complied with the OEFC Board Code of Conduct.
2. I have declared and will declare all conflicts of interest, as identified in Section V "Ethical Conduct and Conflict of Interest" of the Code of Conduct.
3. I have reported and will report violations of this Code and any other unethical behavior that I observe or am made aware of relating to OEFC.
4. I have not used, and will not use, confidential information of OEFC or government assets for personal benefit.

I have not and will not engage in transactions involving securities as specified by the Chair or the Chair's designate from time to time pursuant to this Code.

(III) **DECLARATION OF OTHER POSITIONS**

(List should include all employment by, and directorships or positions with, any businesses, not-for-profit organizations or governmental entities)

Name of Company	Position(s) Held	Service Year(s)

Director ____________________ Signature ____________________

Date: ____________________