Contents

Your morning briefing

07.12.2017

Headlines

Auditor General **Bonnie Lysyk** released her annual report yesterday, refusing to ease up on the government she holds to account. Lysyk held court Wednesday on partisan-inflected ads paid for courtesy of John Q. Public, on misleading financial statements and on waste and mismanagement from the energy grid to the surge in teacher sick days. Check out our sum-up here of her yearly value-for-money rundown, and our deep dive into the audit's juiciest bits below:

- AG report 2017: Lysyk weighs in on fraught relationship with Ontario Liberal government
- AG Report 2017: Lysyk will dive into IESO's books
- AG Report 2017: Social housing wait lists have millionaires ahead of families in desperate need
- AG Report 2017: Ontario unprepared for a major emergency — be it wildfire, ice storm or cyberattack
- AG Report 2017: Teacher sick days surge, and cash needed elsewhere goes to cover the cost
- AG Report 2017: Not all cancer patients' health needs being met
- AG Report 2017: Recommendations on the OMB, property tax appeals, and government office space

In other news:

Randy Hillier, the outspoken MPP from Lanark-Frontenac-Lennox and Addington, harassed municipal staff over building issues in Tay Valley last June, an independent investigator has found. Hillier responded that the finding "belittles" the term "harassment" and gives him "even more resolve to call a spade a spade," the *Ottawa Citizen* reports.

Ontario's businesses are blossoming in China, with more than $200 billion in exports flowing Upper Canada to the people's republic, *TVO* types. U of T researchers point to the power of intangible products such as banking, insurance and tech while Premier **Kathleen Wynne** wraps up her tour of East Asia.

With four days to go before a federal by-election in Scarborough-Agincourt, the Conservative candidate has said the Trudeau Liberals "want to legalize prescription heroin!" **Dasong Zou**, a bank manager seeking to take the seat of former Liberal MP **Michael Chan**, who passed away in September, argues the Grits on Parliament Hill "want to bring dangerous drugs into our community" via a safe injection site and marijuana legalization.

If internet access is a basic right, then some southwestern Ontarians are having their fundamentals infringed on. A non-profit armed with $180 million in federal and provincial cash wants to bridge the low valleys and bad weather that can block online connection outright to bring high-speed service to rural parts of the region.

First Nations leaders are demanding the right to govern the sale, distribution and consumption of legalized pot in their communities, the *Globe and Mail reports*.

Ten months out from next year's municipal election, a fresh poll from a new polling company, The Firm Digital, suggests the gap between Mayor **John Tory** and his would-be successor **Doug Ford** is not as wide as voters might think, the *Toronto Sun* reports.

A faulty refrigerator will cost Ontario taxpayers $45,000 after a failure in the appliance ruined the efficacy of 5,500-plus flu vaccines, the *London Free Press* reports. Whether said error makes it into Lysyk's next report remains to be seen.

With Toronto facing a critical housing shortage and a backlog in social housing repairs, Coun. **Maria Augimeri** and Liberal MP **Adam Vaughan** hook up for a political blind date on *TVO.* They sniff each other out, make halting attempts at humour and judge how much faith they're willing to place in each other — and each other's housing solutions.

From the opinion pages:

- **Martin Regg Cohn** argues that Lysyk, a would-be "philosopher general," could use a good editor, given her report's "burst of melodrama" and its insertions of "her own values about borrowed money."
- **Christie Blatchford** insists there are troubling signs Wilfrid Laurier University's fact-finding investigation into "the **Lindsay Shepherd** affair" is targeting Shepherd herself.
- While Ontario's premier revels in securing trade deals to bring it closer to China, **Terry Glavin** wonders why Canada should covet close relations with an increasingly authoritarian state, with **John Ivison** weighing in as well.

Private member's bills

Second Reading of Bill 180, An Act to provide for safety measures respecting movable soccer goals. Tabled by PC MPP **Todd Smith** and Liberal MPP **Sophie Kiwala**.

Second Reading of Bill 184, An Act to amend the Liquor Licence Act with respect to maple wine and mead. Tabled by Liberal MPP **Grant Crack**.

Committees

9 a.m. and 1:30 p.m.

The Standing Committee on Finance and Economic Affairs will meet to consider Bill 177, An Act to implement Budget measures and to enact and amend various statutes. Room No. 151, Queen's Park, Toronto.

9 a.m. and 2 p.m.

The Standing Committee on Justice Policy will meet for clause-by-clause consideration of Bill 174, An Act to enact the Cannabis Act, 2017, the Ontario Cannabis Retail Corporation Act, 2017 and the Smoke-Free Ontario Act, 2017, to repeal two Acts and to make amendments to the Highway Traffic Act respecting alcohol, drugs and other matters. Room No. 1, Queen's Park.

Events

1:15 p.m.

Eric Hoskins, Minister of Health and Long-term Care, to make an announcement. Media Studio, Queen's Park.

AG Report 2017: Lysyk will dive into IESO's books

06.12.2017

The Auditor General is calling for a review of the Independent Electricity System Operator's books, arguing that the wholesale electricity market operator has failed to implement important Ontario Energy Board recommendations.

Auditor General **Bonnie Lysyk** cited a number of issues with IESO practices, including questionable accounting standards and the decade-long abuse of an IESO program that resulted in nine companies overcharging ratepayers to the tune of $260 million.

"Some of the issues could have been, and still can be fixed relatively quickly to save Ontario ratepayers additional costs," said Lysyk in a statement.

The AG announced that her office will exercise its legal authority to audit the IESO's year-end books, a move that follows a "qualified" opinion of the government's treatment of IESO's assets and liabilities, adding that the government's financial statements have become "increasingly unreliable."

"Qualified" audit opinions refer to statements that "contain one or more material misstatements or omissions," according to the auditor's report.

In particular, Lysyk took issue with the government claiming IESO assets on its books. In her report, she argues the IESO is an independent agency that acts as a broker for energy transactions, and thus their balance sheet does not qualify as an asset under Canadian Public Sector Accounting Standards.

The government did not concur with the auditor's assessment, continuing their disagreement over hydro-related accounting.

The Auditor-General singled out the Standby Cost Recovery Program (SCRP), also known as the Real-Time Generator Costs Guarantee Program. Begun in the early 2000s and meant to provide system reliability, the program pays for the start-up costs of power plants that respond to energy demand at peak periods.

While a November OEB report that was featured in question period on Tuesday focused on the Brampton-based gas plant Goreway, the Auditor General's report looked at IESO data from 2006 to 2015. The report shows that nine companies submitted ineligible claims as part of the SCRP, with three companies accounting for 95 per cent of the ineligible claims.

Figure 10: Results of Audits of Costs Claimed by Nine Generators under the Standby Cost Recovery Program

Source of data: Independent Electricity System Operator (IESO)

Generator*	Years of Submissions Covered by Audits	Total Claims Paid ($ million)	Ineligible Costs ($ million)	Ineligible Costs % of Total Paid	Ineligible Costs Recovered: Total Recovered ($ million)	Ineligible Costs Recovered: % of Ineligible Costs Recovered
Company A	2009–15	240.0	162.1	68	110.0	68
Company B	2006–15	147.0	50.9	35	22.0	43
Company C	2006–15	78.0	22.7	29	17.4	77
Company D	2008–14	72.0	2.1	3	1.3	62
Company E	2010–12	23.0	7.5	33	7.5	100
Company F	2009–12	17.0	6.5	38	3.5	54
Company G	2010–12	7.9	4.1	51	2.7	66
Company H	2006–12	3.6	2.3	64	2.3	100
Company I	2006–15	2.4	1.2	50	0.8	67
Total		**590.9**	**259.4**	**44**	**167.5**	**65**
Average				**41**		**71**

* Audit information is designated confidential information under the provisions of the Market Manual, Market Rules and the *Electricity Act, 1998*. We therefore refer to generators in this figure anonymously as "Company A," "Company B," and so on.

The IESO oversight division recouped $168 million of the $260 million in ineligible claims through settlements and agreements, and is disputing a further $10 million, according to the report.

The $260 million in ineligible claims represents 40 per cent of all claims filed in that time period.

While claims were supposed to be restricted to the costs related to starting up power equipment on standby, some invoices were more creative than the guidelines allowed. They include:

- SCUBA gear
- Staff car washes
- $300,000 worth of landscaping at Goreway
- $175,000 worth of parkas and coveralls over two years at one plant
- Raccoon traps

Goreway, the worst offender under the program, also produced to the IESO documents containing fictitious costs, according to Lysyk's report. The company had filed claims of $27 million worth of equipment parts it had no intention of buying in order to "game" the system. The company also padded its estimate of the cost to fire up the plant by $25,000 in order to help meet budget numbers, a move that costs ratepayers an additional $5 million on an annual basis.

The OEB report released in November contains an email from a Goreway executive to staffers expressing their delight that the IESO would expand the SCRP, and the possibilities it would bring to the company: "Put a bow on it… Christmas came early!"

In a statement to *QP Briefing* Tuesday, Goreway said that it was one of several companies audited by the IESO, and that it has taken steps to enhance its compliance.

While the SCRP has had problems over the past decade, the IESO maintains that it is an important program needed to ensure reliability in the energy system.

The Auditor-General took issue with this argument, pointing to multiple OEB reports from 2010, 2011, 2014 and 2016, where the IESO was warned or asked to reassess the value of the program, and which costs they reimbursed.

In response to an auditor recommendation, the IESO has agreed to provide in 2018 a detailed analysis of the SCRP, and why it is "necessary to allow the IESO to comply with the North American power system reliability standards and ensure a reliable supply of electricity for Ontarians."

The IESO also noted in a response to the Auditor General that the costs for the program have fallen from $61 million in 2014 to $23 million in 2016. Through vice-president **Terry Young**, the IESO told *QP Briefing* Tuesday that controls on the program have been tightened. While companies did not have to submit itemized expenses in the past, now they do. As well, there are price control limits on 14 of 15 categories for eligible expenses.

The AG also investigated the IESO's and OEB's cyber security standards, and found they were well-prepared.