RE: Summary -- PC Reaction to FAO Fair Hydro Report

From: "Ovenden, Erin (TBS)" <erin.ovenden@ontario.ca>
To: "Sullivan, Bryant (TBS)" <bryant.j.sullivan@ontario.ca>, "Gallant, Gabrielle (TBS)" <gabrielle.gallant@ontario.ca>, "Prins, Sebastian (TBS)" <sebastian.prins@ontario.ca>
Cc: "DiMuzio, Sofie (TBS)" <sofie.dimuzio@ontario.ca>, "Miller, Amanda (TBS)" <amanda.miller@ontario.ca>, "@TBS-L-Issues and Media" <tbs-l-issuesandmedia@msgov.gov.on.ca>, "Balgobin, Sueanne (TBS)" <sueanne.balgobin@ontario.ca>, "Nelson, Dane (TBS)" <dane.nelson@ontario.ca>, "Simone, Nicole (TBS)" <nicole.simone@ontario.ca>, "Laughton, Patrick (TBS)" <patrick.laughton@ontario.ca>, "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
Date: Thu, 25 May 2017 08:27:58 -0400

Good morning-

Here are the answers to your questions below:

- It is precedent setting in terms of public sector accounting in Canada

It may be precedent setting in terms of an individual entity that applies public sector accounting in Canada applying rate regulated accounting. That's a difficult question to answer as there are hundreds of financial statements prepared in accordance with public sector accounting standards in Canada and no database that accumulates them (unlike databases that exist for public company statements.) However, it's not true that rate regulated accounting does not already impact the fiscal positions of government entities. In Ontario, the f/s of OPG and Hydro One include rate regulated accounting and the impact of using that model flows through to the annual surplus/deficit. The difference between IESO and OPG/Hydro One is that for consolidation with the province OPG/Hydro One will be consolidated using IFRS and IESO is consolidated using public sector standards.
In terms of applying rate regulated accounting to the IESO books, IESO's external auditor (KPMG) provided advice to IESO on the relevance of US GAAP to reporting the economic substance of the IESO's activities and balances. IESO concluded that it met the requirements of PS2120.02, which allows them to reflect the impacts of rate regulation, as it is considered that the change of accounting policy in its 2016 financial statements resulted in a more appropriate presentation of transactions in the financial statements. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model. It should be noted that a decision to reflect the rate regulated balances on the IESO's books was independent of the Hydro rate relief initiative and will remain, regardless of whether the FHP is adopted .

- You know the standards in Canada are supposed to speak to the Canadian situation

Rate regulated accounting has a long history in Canadian financial reporting, and past practice is based on USGAAP (FAS71). In fact, any Canadian rate regulated entities which report rate regulated balances under US GAAP, IFRS (IFRS14) or ASPE continue to base their accounting on USGAAP. In other words, the standards used by public companies (US GAAP and IFRS) and private companies (ASPE for the most part) in Canada all look to US GAAP as their basis for rate regulated accounting. There has been, and continues to be, wide support for the merits of rate regulated accounting in reflecting the economic substance of an entities activities, in Canada, the US and around the world. The International Accounting Standards Board currently has a temporary standard that permits rate regulated accounting and a project underway to assess the development of a full standard for rate regulated accounting, and the expectation is that such standards will be introduced.

- Reference to US accounting when there are Canadian standards is not appropriate

  Accounting standard setters acknowledge that accounting standards cannot address every possible transaction. In such situations, the PSAB GAAP hierarchy (in PS 1150) states that a reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions including: a) sections; b) guidelines; and c) appendices and illustrative material. When primary sources of GAAP are not applicable or when additional guidance is needed, a reporting entity should adopt accounting policies and disclosures that are consistent with the primary sources of GAAP and the application of the concepts described in section PS 1000. In assessing the appropriate accounting for IESO's market related transactions, PS 1150 was applied by the entity, and its decision was supported by its external auditors. Reference to US GAAP (ASC 980) was absolutely appropriate in this circumstance as noted above, all rate regulated entities in Canada which continue to report rate regulated balances are doing so in reference to US GAAP (see previous comment re: IFRS and ASPE both rely on US GAAP in connection with their policies for rate regulated accounting.)

Erin Ovenden
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Tel: 416-326-7727

From: Ovenden, Erin (TBS)
Sent: May-24-17 1:40 PM
To: Sullivan, Bryant (TBS); Gallant, Gabrielle (TBS); Prins, Sebastian (TBS)
Cc: DiMuzio, Sofie (TBS); Miller, Amanda (TBS); @TBS-L-Issues and Media; Balgobin, Sueanne (TBS); Nelson, Dane (TBS); Simone, Nicole (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Subject: RE: Summary -- PC Reaction to FAO Fair Hydro Report

Hi-

We're also going to find out about your questions from the scrum:

" Auditor says

- It is precedent setting in terms of public sector accounting in Canada
- You know the standards in Canada are supposed to speak to the Canadian situation
- Reference to US accounting when there are Canadian standards is not appropriate

Is this true? Can we debunk it?"

Erin Ovenden
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From: Sullivan, Bryant (TBS)
Sent: May-24-17 1:06 PM
To: Gallant, Gabrielle (TBS); Prins, Sebastian (TBS)

Cc: DiMuzio, Sofie (TBS); Miller, Amanda (TBS); @TBS-L-Issues and Media; Ovenden, Erin (TBS); Balgobin, Sueanne (TBS); Nelson, Dane (TBS); Simone, Nicole (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
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MO: re. the AG's comments at standing committee, we're just checking with program areas to ensure the language from our HBN is still appropriate if a response is needed. We'll confirm ASAP.

In the meantime this is what the note said about the province's accounting methods:

IF ASKED ABOUT ACCOUNTING METHODS FOR GLOBAL ADJUSTMENT:

- Under the proposed structure, the Province's net debt and annual surplus/deficit is not expected to be negatively impacted since all costs are expected to be recovered through future rates.
- However, there is still much to be done in terms of working out the remaining details through regulations and commercial agreements.
- The fiscal impact to the Province will only be known once those details are finalized.
- The Ministry of Finance continues to work closely with Treasury Board Secretariat, the Ministry of Energy, OPG, the IESO and external advisors to address the outstanding accounting related considerations which will be key to managing the fiscal impact of the GA refinancing.
- The Auditor General has also been briefed on the proposed structure of the GA refinancing structure and will be advised of the government's proposed accounting treatment once the necessary details are available.

From: Doose, Ann (TBS)
Sent: May-24-17 12:11 PM
To: @TBS-L-Issues and Media; Ovenden, Erin (TBS); Gallant, Gabrielle (TBS); Ostergard, Matt (TBS); Prins, Sebastian (TBS); Balgobin, Sueanne (TBS); Cusumano, Josephine (TBS); MacIntyre, Kyle (TBS); Nelson, Dane (TBS); Simone, Nicole (TBS); Walsh, Laura M. (TBS); Arbabzadeh, Nina (TBS); Babic, Helen (TBS); Bain, Lezlie (TBS); Bryant, Michelle (MOF); Charchuk, Lexie (MCSS); De Monte, James (TBS); Dyczkowski, Marilyn (TBS); Glasgow, Mark (TBS); Haughey, Mary (TBS); Hurley, Richard (TBS); Huynh, Kellie (TBS); Khan, Mateen (TBS); Khandelwal, Nupur (TBS); Krajcik, Sandra (TBS); Laughton, Patrick (TBS); Lecusay, Sussana (TBS); Lin, Kim (TBS); Lisi, Linda (MCSCS); Mahabir, Nicole (TBS); Rowland,

Bryan (TBS); Serrano, Maurice (TBS); Toner, Amanda (TBS); Tsirtsimpis, Katerina (TBS); Vassilenko, Olga (TBS); Webb, Trish (TBS); Arruda, Artur (TBS); Cheung, Dorothy (TBS); Coghill, Jay (TBS); Foster, Bruce (TBS); Graham, Helen (TBS); Hughes, Karen (TBS); Kennedy, Richard (TBS); Liscio, Joe (TBS); Parkash, Ruchi (TBS); Sharda, Raj (TBS); Whitehead, Cam (TBS); Wuschnakowski, Gary (TBS)
Subject: Summary -- PC Reaction to FAO Fair Hydro Report

Good afternoon,

Below and attached is the summary from this morning's news conference by PC Energy Critic Todd Smith.

Also attached are the remarks by Auditor General Bonnie Lysyk to the Standing Committee on Justice Policy on Bill 132 Ontario Fair Hydro Plan Act, 2017—May 24, 2017

Regards,
Ann

Media Conference -- PC Reaction to Financial Accountability Officer's Fair Hydro Report

May 24, 2017

Event Summary

- MPP Energy Critic Todd Smith held a news conference in the Queen's Park Media Studio this morning, to respond to Financial Accountability Officer's Fair Hydro Report.
- He says this is the 'Unfair Hydro Plan' in that it's unfair for the next generation and then took reporter questions.
- CO transcript is not yet available.

Media QA

- *Toronto Sun – Antonella Artuso*
  - *The plan seems to be predicated on balancing the budget for the next 29 years – how realistic is that?*
    - *Answer -- It's fantasy land really. The Auditor General says we're going to go back to deficits because this government has used one-time funding to get back to balance. Interest rates may rise and this could throw the plan out of whack. It's going to cost $45-millllion dollars I'm told.*
- *Unidentified Reporter*
  - *People are not going to be angry this time next year.*
    - *Answer -- The government isn't fixing anything. I think a lot of people are seeing through this, this is Kathleen Wynne's re-election plan. People are seeing it for what it is. We've been in committee on this bill and those who have appeared have agreed this is not the way to fix the problem.*

- * *Toronto Star – Robert Benzie.*
  - *It seems to be working, people like to be bribed with their own money. The latest polls show the gap has closed. Isn't it working?*
    - *Answer -- A lot of people are saying at committee that the government isn't doing what it should be doing, they're making a mess, not just for our generation but for our kids and our grandkids; the Financial Accountability Officer says so. I think people can't be fooled again. This is the fifth time they're trying to bribe people with their own money.*

- * *CBC – Mike Crawley*
  - * *We'll have to wait until November until we see your policy plan?*
    - *Answer – We're getting recommendations in and deciding what we will take to the membership in November.*
  - *Are you going to borrow to take billions of dollars from this electricity system?*
    - *Answer – We're not going to do that now, we're planning for when we become government in Ontario. We'll have to take a look at the contracts and understand what kind of a mess we're inheriting.*
- * *Toronto Star—Robert Benzie*
  - *If they're spending like drunken sailors there's going to be a hangover. Are you preparing*

some tough medicine? Or are you going to make promises like the liberals are doing?
§ *Answer – They're making promises but they're being found out. Everything the government has done is for electioneering politics.*

- ** Toronto Star – Robert Benzie*
  - ** Rates are going to have to go up, this subsidy is something we can't afford.*
    § *Answer – It's something our members are going to have to decide. We'll have to see what the damage has been done when we get in there. The government's plan doesn't fix, it puts off for future generations.*

Updated Media Coverage
Hydro rate-cut will ultimately cost $21B, watchdog warns (Toronto Star – updated)

Liberal government's "Fair Hydro Plan," which lowers electricity bills by 25 per cent, will ultimately zap Ontarians to the tune of $21 billion over the next three decades: province's budget watchdog.
By ROBERT BENZIEQueen's Park Bureau Chief
Wed., May 24, 2017
It's a short-term, hydro-bill gain in exchange for longer-term fiscal pain.

The Liberal government's "Fair Hydro Plan," which lowers electricity bills by 25 per cent, will ultimately zap Ontarians to the tune of $21 billion over the next three decades, the province's budget watchdog has found.

In a 15-page report released Wednesday, Financial Accountability Officer Stephen LeClair said the scheme will cost the province $45 billion over the next 29 years while saving ratepayers $24 billion for a $21-billion net expense.

But LeClair warned his estimates are only applicable if "the province is able to achieve and maintain a balanced budget over 20 years." If borrowing is required to bankroll the hydro subsidy, the cost could balloon to between $69 billion and $93 billion.

Finance Minister Charles Sousa just balanced the books last month after nine years of deficits.

The average monthly hydro bill is now $156 per household and the 25-per-cent rate-cut will lower the average this year to $123.

Recent public opinion polls suggest the Premier Kathleen Wynne's Liberals appear to be benefiting from the forthcoming lower electricity prices, as two recent surveys show they are closing the gap with the front-running Progressive Conservatives.

Both the Tories and Andrea Horwath's New Democrats oppose the Liberals' rate-cutting measure. LeClair said it will keep homeowner's electricity costs lower than they would have been over the next decade, although they will be slightly more expensive after 2027.

"Although eligible electricity ratepayers are projected to achieve overall savings of $24 billion, the savings is not distributed evenly over time," the independent legislative officer wrote.

"From 2017 to 2027, electricity costs are projected to be lower under the (Fair Hydro Plan) compared to the status quo (for a total savings of $33 billion), while after 2027, electricity costs are projected to be higher under the FHP compared to the status quo (for a total cost of $9 billion)," he continued.

"This results in net savings of $24 billion over 29 years."

Last Thursday, Energy Minister Glenn Thibeault introduced legislation for the plan, promising it would spread the costs of big-ticket electricity system improvements in the past decade over a lengthier period of time.

Thibeault likened it to "refinancing a mortgage" to have lower payments now while acknowledging there will be additional interest payments over the longer term.

"We've always said that the proposed Fair Hydro Plan will cost more over the long-term, but it will share the costs of our investments more fairly over a longer period of time, and lower bills by 25 per cent on average starting this summer," the minister said Thursday.

“It’s important to remember that the FAO’s projection of electricity costs reflects a point-in-time estimate that demonstrates how we can ensure greater fairness and affordability in the short and medium term,” he said.

“Later this summer, our government will release the next Long-Term Energy Plan (LTEP), which will take additional costs out of the system and address affordability over the long-term.”

Under the plan, any rate increases would be held at the rate of inflation — about 2 per cent — over the next four years.

However, a leaked cabinet document obtained by the Tories — and dismissed by the Liberals as an early draft of the plan — said rates would rise steeply, starting with 6.5 per cent in 2022 and topping out at 10.5 per cent in 2028, when average monthly bills would be $215.

“Kathleen Wynne’s unfair hydro plan is a sham. The government’s own numbers confirm it and independent experts confirm it. Rates are going up. Period,” PC Leader Patrick Brown said in a statement.

“It’s time for Kathleen Wynne to stop covering up the truth: under her plan, our hydro bills will go up. Everything will cost more. This will have a devastating impact on household budgets and the economy,” said Brown.

NDP MPP Peter Tabuns (Toronto Danforth) said “the impact is greater than we feared” of subsidizing ratepayers.

Tabuns conceded voters “may be lulled by it,” but cautioned that eventually someone has to pay the piper.

“As we talk to people and as the word gets out that, in fact, (Ontarians are) going to be paying a lot more, the credibility of this (rate-cut) bill is going to start to sink,” he said.

“There’s no question that people feel a real hunger for some relief, but they don’t like the idea they’re going to be hit hard in a very short period of time.”

Additional Social Media Coverage
11:43 Catherine Fife
@CFifeKW
Ontarians pay extra $45B over 29 years, rates rise to $215/month & #HydroOne sold to Bay St. But Liberals call it a fair plan? #onpoli

11:37 Geoff Zochodne @GeoffZochodne
.@InfoFAO shows Liberal government plan to "refinance" global adjustment fee on hydro bills more complex than we were first shown.
#onpoli

11:33 Ontario PC @OntarioPCParty
BREAKING: FAO just confirmed the true cost of Wynne’s unfair hydro plan: as high as $93 BILLION. More here: onpc.ca/2pCguz5 #onpoli

11:29 Geoff Zochodne Retweeted
Allison Smith @QueensParkToday 17m17 minutes ago
More
AG Bonnie Lysyk tells committee that Fair Hydro Plan defies accounting standards by not counting debt it is borrowing for 25% rate cut.
0 replies 2 retweets 0 likes

11:28am Geoff Zochodne @GeoffZochodne 18m18 minutes ago
Geoff Zochodne Retweeted Auditor General ON

Liberal government getting an auditor general appearance AND a Financial Accountability Officer report on hydro plan the same day.
#onpoliGeoff Zochodne added,
Auditor General ON @OntarioAuditor

Auditor General speaking to the Justice Policy Committee on Ontario's Fair Hydro Plan. Read her remarks:
[http://www.auditor.on.ca/en/content/news/remarks_standing%20committee%20on%20justice%20policy.pdf …](http://www.auditor.on.ca/en/content/news/remarks_standing%20committee%20on%20justice%20policy.pdf)
1 reply 1 retweet 1 like

11:28 Auditor General ON@OntarioAuditor
Auditor General speaking to the Justice Policy Committee on Ontario's Fair Hydro Plan. Read her remarks: auditor.on.ca/en/content/new…

11:28 Mike Crawley@CBCQueensPark
PC energy critic @ToddSmithPC isn't saying what his party would do to cut these hydro costs cbc.ca/1.4128902

11:26 Ontario PC@OntarioPCParty
BREAKING: FAO just confirmed the true cost of Wynne's unfair hydro plan: as high as $93 BILLION. Sign here: onpc.ca/2pCguz5 #onpoli

11:18 NEWSTALK1010@NEWSTALK1010
PC Energy Critic Todd Smith says it's "fantasy land" to think the province can balance books for 30 yrs to keep hydro plan costs at minimum

11:17 Ontario Proud@ontarioisproud
This just came out in the last six days. Imagine what Wynne will do with another four years #onpoli
11:17am · 24 May 2017 · Twitter Web Client

11:08 Ontario PC Press@PCPressOffice
NEWS: Kathleen Wynne's Unfair Hydro Plan a Sham: FAO onpc.ca/2qWe5Sa #onpoli
11:08am · 24 May 2017 · TweetDeck

11:03 am Mike Schreiner @MikeSchreiner
It's outrageous for the OLP to buy a $45 billion band-aide to cover up their hydro mess. #FAOReport bit.ly/2rhukwn #onpoli