Accounting Structure of the Fair Hydro Plan

Issue:

- The Globe & Mail's Matthew McClearn has contacted Treasury Board Secretariat (TBS), Ministry of Finance and Ministry of Energy about an article that will look into the Auditor General's criticism of Ontario's Fair Hydro Plan (OFHP or "the Fair Hydro Plan").
- The article is expected to name senior Ontario Public Service (OPS) officials from these ministries and discuss their roles in the government's decision to adopt the accounting structure for OFHP. The article is also expected to note that these senior officials declined to be interviewed, and instead submitted written responses. The article's publication could coincide with the Auditor General's release of a special audit report on Independent Electricity System Operator (IESO) accounting, which is expected to be released on April 23, 2018 (TBC).
- While the Ministry of Energy and IESO will lead the government's response to the AG's special report on IESO, it is expected that the issues raised in the AG's report will overlap with items discussed in the Globe & Mail's article, which may require TBS to comment in the House or to media – namely:
    - the AG's view that the IESO's adoption of market accounts on its books does not comply with Public Sector Accounting Standards (PSAS), and that IESO's adoption of market accounts was directly related to the creation of the OFHP; and,
    - the Provincial Controller's role in requesting the IESO review its accounting treatment for market accounts.

Top-Line Key Messages:

- The province's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS).
- In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The impact of the Fair Hydro Plan will be transparent in the financial statements of IESO, Ontario Power Generation (OPG) and the consolidated financial statements of the province.

- The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.
- We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

Key Messages re. PSAS and IESO Market Accounts:

- PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.
- That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Key Messages re. Provincial Controller and IESO Market Accounts:

- In January 2017, at one of the initial meetings that the Provincial Controller attended to discuss OFHP, the Controller became aware of the accounting for the market accounts at IESO.
- At that point the Provincial Controller requested that IESO management review the accounting for these accounts.
- At the time the request was made, the structure for the Global Adjustment Refinancing of OFHP had not been determined.
- The recognition of market accounts on IESO's books better reflects the financial position of the IESO-administered markets at year-end. IESO's decision to recognize market accounts was supported by the IESO's audit committee, its board of directors, its independent external auditor (KPMG), and by the Office of the Provincial Controller.
- This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements.
- While the Provincial Controller became aware of the accounting for the market accounts of IESO at a meeting to discuss the Fair Hydro Plan, the request to review the accounting for the market accounts was not tied to or in anticipation of the structure of the Fair Hydro Plan.

Current Status:

- On April 21, 2018, the Globe & Mail ran the article "XX" by Matthew McClearn. It included quotes from XX and made the following statements: XX

- During the week of April 16, 2018, Mr. McClearn sent requests for an interview to Ministry of Finance Deputy Scott Thompson, Provincial Controller Cindy Veinot, and Treasury Board Secretariat Deputy Helen Angus; interviews were declined. On April 18, 2018, Mr. McClearn indicated that he would be publishing a story highlighting the direction the Provincial Controller gave to the IESO, which he noted he will argue was created to set the stage for OFHP.

- On March 25, 2018, Mr. McClearn published an article, "Auditor-General blasts 'bogus' hydro accounting strategies in Ontario," highlighting the Auditor General's criticisms of the IESO following her special audit of the organization, which the Auditor spoke to during her March 21, 2018 appearance at the Standing Committee on Public Accounts (SCOPA).

    - Note: This article misstated that Ontario would the first province in Canada to receive an adverse audit opinion. Saskatchewan's general revenue fund financial statements were given an adverse opinion in 2013 by their provincial auditor general.

- On February 28, 2018, Mr. McClearn attended the SCOPA session where the Ministries of Energy and Finance and TBS appeared for discussion regarding Chapter 2, Public Accounts of the Province, of the Auditor General's 2017 Annual Report. Following the session, Mr. McClearn posed questions to the Ministries of Energy and Finance, TBS, and Ontario Power Generation regarding the financial and accounting structure of OFHP. See attached media contact reports.

Strategic Approach:

- Re. Globe & Mail article, reactive issues management approach is recommended, which:

    - Highlights due diligence in decision making (OFHP accounting, IESO market accounts, IESO rate-regulated accounting)

    - Emphasizes the role of a public servant is to provide non-partisan advice to government based on due diligence and the application of professional judgment.

    - Emphasizes that the province will continue to follow PSAS, as always, and will seek appropriate expert guidance where PSAS is silent.

    - Reaffirms the government's commitment to working with the Office of the Auditor General.

- Ministry of Energy and IESO are the overall lead on government's response to AG's special report on IESO.

- Ministry of Energy is the overall lead on matters related to OFHP:

- TBS to speak to matters of accounting (including government decision to accept IESO accounting)
- Ministry of Finance (Ontario Financing Authority) to speak to matters of financing

Related Upcoming Reports:

- Auditor General's Special Audit of the IESO (date: expected Monday, April 23 - TBC)
- Order Paper Questions #17 (opinions from external advisors re. OFHP) and #20 (re. 'regulatory assets' and legislated accounting) (date: due to Cabinet Office on Tuesday, April 24)
- TBS FOI 014 (Minister emails pertaining to financial/accounting structure of OFHP; requestor is 'media') (date: decision to be released on May 3, 2018)
- Auditor General's Review of Ontario's Pre-Election Report (date: TBC)
- Financial Accountability Officer's Spring 2018 Economic and Budget Outlook (date: TBC)
- SCOPA's Report on Chapter 2, Public Accounts of the Province, of the Auditor General's 2017 Annual Report (date: TBC)

Attachments:

- Fair Hydro Plan House Book Note
- IESO Issues Note regarding the Auditor General's special audit report
- OPQs #17 and #20 (currently with TBS Minister McMahon for signatures; due to Cabinet Office on April 24)
- Media Contact Reports
    - TBS
        - April 5 (Provincial Controller and IESO market accounts); April 6 (signatures on Public Accounts); April 20 (interview request for Provincial Controller Cindy Veinot and Deputy Minister Helen Angus; Provincial Controller direction to IESO regarding market accounts and OFHP)
    - Ministry of Energy
        - March 6 (OFHP numbers); March 12 (OFHP and SCOPA; includes response on behalf of TBS); April 18 (OPG's role in OFHP)
    - Ministry of Finance
        - April 16 & 17 (interview request for Deputy Minister Scott Thompson; clarification regarding signatures on Public Accounts)
- SCOPA Documents
    - Transcripts from February 28 (appearance for the consideration of Chapter 2, Public Accounts of the Province, of the AG's 2017 Annual Report) and March 21 (where the AG discussed the special audit of IESO)

    - Questions & Answers (briefing materials provided for TBS, Ministry of Energy, and Ministry of Finance officials)

- Globe & Mail article: "Auditor-General blasts 'bogus' hydro accounting strategies in Ontario," Matthew McClearn, March 25, 2018