FW: For OFA Approval - Q re: OFHP Financing

From: "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Thu, 23 Nov 2017 16:46:41 -0500

Hi Cindy

Can you look at the highlighted sentence below (this was from the Ch 2 QAs). MOF wants to make sure we saw it and are ok with it

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From: Tharani, Alisha (TBS)
Sent: November 23, 2017 1:41 PM
To: Hosick, Sarah (TBS)
Subject: FW: For OFA Approval - Q re: OFHP Financing

Hi Sarah,

Following up on MOF's question below (related to OAGO Annual Report QAs) –

Is the third paragraph ok with OPCD in this question:

Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Response below is for MOF/OFA approval

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the CEA.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

MOF is checking in to see if OPCD is otherwise ok with the response.

Thanks,

Alisha

Alisha Tharani
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From: Pichette, Marc (MOF)
Sent: November-23-17 1:25 PM
To: Tharani, Alisha (TBS)
Cc: Spadoni, Peter (MOF)
Subject: RE: For OFA Approval - Q re: OFHP Financing

Hi Alisha,

Has the language in the response been reviewed/signed off by TBS/OPCD, specifically the third paragraph of the new response (that discuss the asset and CEA).

From: Tharani, Alisha (TBS)
Sent: November-21-17 6:03 PM
To: Pichette, Marc (MOF); @FIN-L-O-CSB-ISSUES
Cc: Vrancart, Kate (TBS); Thiru, Durga (TBS); Cairns, Alan (TBS); Bigley, Jane (TBS)
Subject: RE: For OFA Approval - Q re: OFHP Financing

Hi Marc,

Do you have an update regarding OFA's response to the financing question for OFHP?

We also have an additional QA for OFA approval:

Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Response below is for MOF/OFA approval

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the CEA.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

This response is from previous OFHP QA materials. If you could please push this for approval ASAP it would be appreciated.

Thanks,

Alisha

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From: Tharani, Alisha (TBS)
Sent: November-21-17 11:41 AM
To: Pichette, Marc (MOF); @FIN-L-O-CSB-ISSUES
Cc: Vrancart, Kate (TBS); Thiru, Durga (TBS); Cairns, Alan (TBS)
Subject: RE: For OFA Approval - Q re: OFHP Financing

Hi Marc,

Thanks for the update.

As soon as you're able to send the response this afternoon would be appreciated.

Thanks,

Alisha

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From: Pichette, Marc (MOF)
Sent: November-21-17 11:38 AM
To: Tharani, Alisha (TBS); @FIN-L-O-CSB-ISSUES
Cc: Vrancart, Kate (TBS); Thiru, Durga (TBS); Cairns, Alan (TBS)
Subject: RE: For OFA Approval - Q re: OFHP Financing

Hi Alisha, we won't be able to get a response until the afternoon.

From: Tharani, Alisha (TBS)
Sent: November 20, 2017 4:43 PM
To: @FIN-L-O-CSB-ISSUES
Cc: Vrancart, Kate (TBS); Bigley, Jane (TBS); Thiru, Durga (TBS); Cairns, Alan (TBS)
Subject: For OFA Approval - Q re: OFHP Financing

Hi MOF Issues,

In anticipation of the forthcoming Auditor General's 2017 Annual Report, we are preparing QAs regarding the chapter on the Public Accounts of the Province.

We have one question regarding the Fair Hydro Plan financing for your/OFA review and approval (relevant section highlighted below):

1. **Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?**

   While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

   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.

   OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

   On the point of "true financial impact":

   In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

   The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management. [AT1]

If you could please let us know if this is good to go **by 12:00pm tomorrow**, it would be very much appreciated.

Thanks,

Alisha

Alisha Tharani
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For MOF/OFA approval