SOC question on comparative accounting

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Cindy,

In response to the SOC's question on accounting for Stranded Debt vs. the GAM smoothing model, please see the Q&A below. Thanks to OFA for their input on this item.

Nadine

Question:

What is the difference in accounting for the Stranded Debt on the Province's books versus what is being proposed for the GAM deferral account?

Answer:

The net unfunded liability for the Stranded Debt impacts net debt because it is reported as a liability (Provincial Debt) on the Province's books.

The deferred GAM costs would not impact net debt, if the targeted accounting treatment is achieved, because it would be offset by an intangible asset reported on OPG's financial statements (Investment in GBEs which are classified as financial assets).

Stranded Debt costs (including interest) are recovered through various revenue streams (e.g., DRC, ESDI and PILs) which are all dedicated revenues from the electricity sector. The expenses and revenues are consolidated into Public Accounts.

Deferred GAM costs will also be recovered from ratepayers in the future, but, under the targeted accounting treatment, the associated revenues of the Trust will not appear on the Province's books as they will be offset by amortization of the related intangible asset on OPG's books over the recovery period (no net fiscal impact). Interest revenue earned by OPG on the loan to the OPGTrust, net of any external debt interest expense, will be consolidated on the Province's books as part of the consolidation of OPG's net income and offset borrowing costs reported by the Province. To the extent that interest revenue from the Trust is not sufficient to cover the Province's equity investment in OPG, and ~~or~~ OPG's incremental financing, there may be a fiscal impact to the Province.

Once the Stranded Debt costs are fully recovered, the unfunded liability on OEFC's books will be drawn down to zero. [Note that OEFC's books have been recorded such that its unfunded liability is on a "book value" basis. When the unfunded liability is recorded as zero, that does not necessarily mean that on an annual basis going forward that OEFC's ongoing expenses related to its remaining debt and other liabilities will necessarily be offset by its remaining dedicated revenues (e.g. PILs and Gross Revenue Charge).] The residential component of the DRC ceased as of Jan 1, 2016 while the non-residential component is legislated to end April 1, 2018. The Province will continue to benefit from OPG and H1 revenue reported on its books, as well as PILs and GRC revenue. The province will continue to benefit from OPG and H1 revenue reported on its books, as well as PILs revenue.

Once the deferred GAM costs are fully recovered through rates and paid to OPG Trust, the intangible will be drawn down to zero.