Technical Adjustment for Transfer of Operating Expense to Operating Asset related to Hydro One IPO Implementation

1. MINISTRY REQUEST

The Ministry of Energy is requesting a technical adjustment related to the implementation of the Hydro One IPO. It is requested that Treasury Board/Management Board of Cabinet (TB/MBC):

APPROVE the creation of a new Operating Asset item entitled “Strategic Asset Management and Transformation - Investments” in Loans and Investments under Strategic Asset Management (Vote/Item 2906-02).

APPROVE an increase of $2,600,000,000 in Operating Asset Strategic Asset Management and Transformation - Investments (Vote 2906-02), offset from Operating Expense Strategic Asset Management and Transformation (Vote 2906-01)

2. PURPOSE OF REQUEST

The Ministry is requesting a fiscally neutral technical adjustment on expenses related to the implementation of the Hydro One IPO.

On August 25, 2015, TB/MBC approved Supplementary Estimates to create a vote/item, operating expense, transfer payment, and an expenditure increase in the Ministry of Energy in the amount of $2,600,000,000, representing the amount of contribution the Province will provide to Hydro One in exchange for additional shares in Hydro One Limited. In addition, an expenditure increase in the Ministry of Energy in the amount of $63,000,000 was approved to ensure a sufficient appropriation to pay the procurement and other IPO and Brampton Distribution Holdco Inc. related costs, which are to be recovered through the IPO proceeds.

Absent the technical adjustment requested, the transfer will be reported as an investment in the Province’s consolidated financial statements, and subsection 11.5 (1) of the Financial Administration Act will prohibit it from being charged to the operating expense appropriation that would be created under the Ministry of Energy’s Supplementary Estimates.

The requested technical adjustment would align appropriations with the intended acquisition of shares in Hydro One. Under subsection 11.5 (2) of the Financial Administration Act, Treasury Board, based on a recommendation from the

President of Treasury Board, can authorize the Ministry of Energy to use its operating expense appropriation to acquire an asset.

The transfer to acquire additional shares in Hydro One Limited would be accounted for as an increment to the Province's investment in Hydro One (reflected as 'investment in GBEs' on the Province's financial statements). The investment would be reported as an asset on the Province's books and would not be treated as an expense.

3. BACKGROUND:

The Ministry of Energy is planning to process the contribution to Hydro One for the purchase of the shares on November 4, 2015.

Upon Treasury Board approval of the use of an operating expense to acquire an asset, reconciliation between the Supplementary Estimates and the Public Accounts would be required. The reconciliation could take the form of a footnote in the Public Accounts indicating that the operating expense was used to acquire an asset.

Financial Administration Act:

Authorized investments
11.5 (1) Except as otherwise expressly provided in an Act of the Legislature, an appropriation for a fiscal year does not include the authority to make a loan, advance or other form of investment. 2002, c. 8, Sched. B, s. 2.

Treasury Board may authorize investments
11.5 (2) Despite subsection (1), on the recommendation of the Minister of Finance, the Treasury Board may authorize a payment pursuant to an appropriation to be made in the form of a loan, advance or other form of investment on such terms and conditions as the Treasury Board considers advisable. 2002, c. 8, Sched. B, s. 2.

Note: The power referred to in subsection 11.5 (2) has been assigned and transferred to the President of the Treasury Board under the TBS Ministerial OIC.

Auditor General
The Auditor General includes a description of the process by which the government obtained legal spending authority for each fiscal year in her annual report (See Chapter 2). The AG provides an audit opinion on the Province's consolidated financial statements in terms of presentation in accordance with Public Sector Accounting Standards. The opinion does not refer to appropriations.

4. RECOMMENDATION:

The Ministry of Energy is recommending that Treasury Board/Management Board of Cabinet (TB/MBC):

APPROVE the creation of a new Operating Asset item entitled "Strategic Asset Management and Transformation - Investments" in Loans and Investments under Strategic Asset Management (Vote/Item 2906-02).

APPROVE an increase of $2,600,000,000 in Operating Asset Strategic Asset Management and Transformation - Investments (Vote 2906-02), offset from Operating Expense Strategic Asset Management and Transformation (Vote 2906-01)