# RE: Circling back - FHP media call

**From:** "DiMuzio, Sofie (TBS)" <sofie.dimuzio@ontario.ca>
**To:** "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>, "Ue, Allison (TBS)" <allison.ue@ontario.ca>, "Angus, Helen (TBS)" <helen.angus@ontario.ca>, "Hughes, Karen (TBS)" <karen.hughes@ontario.ca>
**Cc:** "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>, "Laughton, Patrick (TBS)" <patrick.laughton@ontario.ca>, "Ue, Allison (TBS)" <allison.ue@ontario.ca>
**Date:** Wed, 14 Mar 2018 18:35:39 -0400

Just to close the loop on this, at this time, Energy has not given KPMG, EY, and Deloitte a heads up – George Nutter (Energy's Issues Manager) is flagging this with his DMO for decision on next steps.

Also for reference only, I had my team do a comparison between the response provided and what was said in Hansard given this could be a point of reference for the reporter. While the response was not entirely consistent with was said at hansard there aren't really any blatant contradictions. Relevant sections are highlighted below.

**From: SCOPA February 28, 2018 – Final Transcript Excerpts**
**Sections relevant to OFHP decision-making below**

**Mr. Randy Hillier:** […] You mentioned that you work early with and you get input early from the Auditor General on a number of items and you work with a collaborative approach. But you didn't seek the Auditor General's advice or input on these accounting practices with the fair hydro plan before the legislation was drafted. That's correct?

**Ms. Helen Angus:** I think we actually reached out to the Auditor General shortly after the policy decision around the construct of the fair hydro plan—

**Mr. Randy Hillier:** That's fine.

You also said that you provide your best impartial advice. I'm going to ask you directly—the three members here at the front: Was the fair hydro plan, as constructed, your best impartial advice to the ministry and to the Premier, on how to construct that hydro rate reduction? Was that your preferred or best advice?

**Ms. Helen Angus:** I would say that part of our advice is covered by the confidentiality provisions of cabinet. I think that we equipped ourselves to execute the govern-ment's preferred policy direction to the best of our abil-ities, given our professional judgment and experience in these matters.

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**Mr. Randy Hillier:** We know that no other Auditor General in this country and no other province uses that practice—nobody else.

**Ms. Cindy Veinot:** The province of British Columbia also uses rate-regulated accounting to account for BC Hydro, which is incorporated into the public sector financial statements of the province of British

Columbia.

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**Mr. Randy Hillier:** Let me make my question clear: Was that your best advice to the government of the day, to develop this fair hydro scheme and add an extra $4 billion of cost? Was that your best and preferred route, or were you directed, urged, pressured or compelled to act in this fashion, which would add needless cost onto everyone? Was that your best advice?

**Mr. Serge Imbrogno:** We always provide the govern-ment advice within the policy construct that it wants to operate.

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**Mr. Randy Hillier:** So was this scheme your best advice to the government? This fair hydro plan, was that the best advice that you provided, or did you feel pressured, urged or compelled to come up with a less than stellar scheme to go with?

**Mr. Serge Imbrogno:** Like I said, we'll provide the government advice on a number of options that meet its policy objective. The fair hydro plan and the spreading out of the cost of the global adjustment was part of that. I think the important part of that is it was always intended that it would remain in the rate base. So pulling out the costs of the social programs was explicit; this would be a tax-based cost. The spreading out of the global adjust-ment would be: Today's ratepayers would pay less; to-morrow's ratepayers would pay more. That was explicit. That's how the legislation was written, and I think that's how—

**Mr. Randy Hillier:** That's not my question. My ques-tion was, was that your best advice? Was this develop-ment of the fair hydro plan your best advice? And was it your preferred mechanism to achieve rate relief?

**Mr. Serge Imbrogno:** What I'm saying is, we provide the government with advice. We give them options. We go through the pros and cons of each option, and then the government decides the course it wants to take. Once the government decides the course it wants to take, we im-plement.

**Mr. Serge Imbrogno:** In all of these major projects that I have been involved in, you always have considera-tions related to the legal aspects of it, the financial aspects of it and the fiscal accounting aspects. All those things are considerations going into a final decision.

It's very difficult to opine on an accounting treatment before you've landed all the details of it, especially the legislation. We do seek advice from our internal account-ants, and to the extent we need to, we seek advice from external accountants.

**Mr. Randy Hillier:** Yes, but again, if you were so open and collaborative, as you said in your opening statements—surely going to the Auditor General's office and explaining this scheme would have been consistent with your comments about being open and collaborative. But that didn't happen until after the policy, right?

**Ms. Helen Angus:** I would say that's probably true, but often the way that we work is that while cabinet is making a consideration—

**Mr. Randy Hillier:** Earlier, you said that you have an open and collaborative—

**Ms. Helen Angus:** Yes, "within the bounds of cabinet confidentiality," I think, is an important construct here in terms of how we work in the policy development process and then perhaps a little differently in the implementation process.

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**Mr. John Vanthof:** I can't stress that enough. At this point, we need—it's possible to do the books differently. We're not arguing about whether—we're not talking about money missing or anything. We're not talking about that. Let's make that really clear: We're not trying to insinuate that. What we're talking about is how the books are presented and whether or not—and my ques-tion is: Did the fair hydro plan have any impact on changing the way the books are presented at this time?

**Mr. Peter Gregg:** There's obviously awareness of decisions that are being made out in the broader public sector, but I would say that the board, most particularly the audit committee, when considering the change to rate-regulated accounting, did not do it on the basis of having to do it for the fair hydro plan. **Management was asked to look at this—regardless of fair hydro, regardless of anything like that—"Is this the right thing to do?"**

That was the work we engaged KPMG to look at, and that's when we got the advice that came back to say, as I said, that six of the other eight independent system oper-ators who manage the North American grid do the same rate-regulated accounting. It also gave the ability for us to more appropriately disclose the $17 billion of market activity that comes through our systems. Before we made this change, that was not represented in our financials adequately. We believe this gives much better transpar-ency to those transactions.

**Mr. John Vanthof:** The two that don't use rate-regulated accounting, and I don't want a really long answer, do they use something—what?

**Mr. Peter Gregg:** I don't know the answer to that question.

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**Mr. John Vanthof:** Okay. So, using the fair hydro plan as an example, with rate-regulated accounting, the way the books are presented, would it look more positive from a policy perspective for the government, as opposed to if rate-regulated accounting was removed?

**1330**

**Ms. Cindy Veinot:** I think in our evaluation of what the appropriate accounting is for the fair hydro plan, we looked to determine whether or not the costs were going to be borne by the taxpayer or the ratepayer. The social programs that were moved onto the tax base, the 8% rebate that was started in January of last year, are all covered by the tax base. So those are all expensed in the period that they're incurred, and would increase the deficit of the province as they are expensed. With respect to the fair hydro plan, the global adjustment refinancing portion of it, as the deputy explained earlier, is to be fully borne by the ratepayer.

If I could just explain for a minute the way the system currently works and then we can go on to the transition: Right now, the OEB sets the RPP, which is the rate that consumers pay. It's estimated every six months. It can't ever be precisely accurate because you don't know how much electricity consumers will use and you don't know the market rates of the electricity. So they estimate it once every six months, and to the extent that it's differ-ent, then there are 12 months to reconcile that. Essential-ly, what's happening now with the fair hydro plan on that piece is that the period of settlement extends from 12 months to 30 years. There is a lower amount that is—

[…]

**Ms. Cindy Veinot:** That period stretches on for 30 years. Those amounts will be collected from ratepayers when the clean energy adjustment is charged to those ratepayers for electricity that is consumed. Rate-regulated accounting permits you to record that amount as an asset. From an accounting perspective, that means that it does not impact the deficit or surplus of the province, which means it reflects that those costs are borne by the ratepayer and not by the taxpayer.

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**Mr. Randy Hillier:** So at no time did any other min-istry say to you, "Whatever you do with this fair hydro plan, it can't show a greater debt on the public books"? At no time did anybody say that to you?

**Mr. Serge Imbrogno:** No, I think what I'm trying to say is that it was always understood that this was a rate-payer cost that would be borne by the ratepayer, and the accounting would follow that. In terms of the consolida-tion—

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**Mr. Randy Hillier:** Well, I'll challenge you on that. I think the auditor's report demonstrated very clearly that it was not very transparent. It was not very open. It was a very convoluted, complex—and unnecessarily so—scheme. I'll challenge on the openness and transparency, but I'm going to go back.

Maybe I'll go to Ms. Angus. Did Treasury Board Secretariat tell the Ministry of Energy that this fair hydro plan cannot add additional costs onto the public's books?

**Ms. Helen Angus:** No, it did not.

**Mr. Randy Hillier:** It did not. It was, "Just go ahead and do that." There was no need. So that convoluted, complex—and unnecessarily so—scheme of creating new trusts and whatnot: That was all IESO's decision, and the Ministry of Energy?

**Ms. Helen Angus:** No, I don't think—I think that there were many hands involved in the creation of the fair hydro plan. I would go back to what the deputy of energy was trying to say. Our job was to find an implementation path that put a set of expenses onto the tax base and another set onto the rate base by refinancing the global adjustment. Our role was really to be part of a process that looked at how to make that happen.

**Mr. Randy Hillier:** Mr. Thompson, did the Ministry of Finance enter into any discussions with the Ministry of Energy to encourage them or direct them to obscure the true cost of the fair hydro plan from the public?

**Mr. Scott Thompson:** The Ministry of Finance worked very closely with the Ministry of Energy on this, and never did it give that kind of direction.

**Mr. Randy Hillier:** Did the Ministry of Finance review the complicated program that was developed by the Ministry of Energy and give its approval to it?

**Mr. Scott Thompson:** The Ministry of Finance was part of the scrutiny of the proposals and the options for how to address the fair hydro plan. It was not in a posit-ion of approving it; it was in a position of giving advice on that. Along with my colleagues at Treasury Board Secretariat and energy, advice and analysis of the options was provided to government, and then they made their decision.

**Mr. Randy Hillier:** So maybe I used the wrong word. Were you agreeable to it instead of "approval" to it? You thought this was the best path forward for the stating of the finances of the province?

**1400**

**Mr. Scott Thompson:** Certainly after we talked to the controller's office and had we comfort from the processes and the analysis they had done for it. It's a shared responsibility between finance and the Treasury Board on the books, so when we asked for accounting expertise and they assured us that this was a viable way, then yes.

(P-300)

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**Mr. John Vanthof: […]** On behalf of the committee, I would like to ask for the opinions from IESO but also the terms of reference, to ensure that the terms of reference that the private consulting and auditing firms offered their opinions on are actually the same or similar to the terms of reference that the Auditor General is obliged to operate under in this province. Could you comment on whether those terms of reference were the same?

[…]

**Ms. Kim Marshall:** Yes, I could talk a little—but I will echo Peter's comments that we are responsible for preparing our financial statements. We are aware that we are consolidated up into the province and we are a government agency involved with our mandate, which is very important, obviously. We would work closely with Treasury Board and the provincial controller in terms of our activities in the consolidation.

You mentioned the terms of reference. I'll just be brief in terms of our audit. **KPMG is conducting their audit in accordance with generally accepted auditing standards,** which I think would be very consistent with what the Auditor General's approach would be in any of the audits they undertake. They've got ethical requirements that they have to work around, and they've got practices and tests that they must do in terms of ensuring that there are not misstatements within the financial statements. So they're going to perform procedures; they're going to look for audit evidence. I would say that there's a fair amount of judgment involved with their process, as well, as we've alluded to a couple of times here.

I can go through a bit more detail in terms of some of the things they'd want, but I'm not sure it's—

**Mr. John Vanthof:** No, but if you could, on behalf of the committee, send us the opinion and also the terms of reference, please?

**Ms. Kim Marshall:** Yes .

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**Mr. Serge Imbrogno:** We can check on the dates, but I think the important thing is that the changes that the IESO made reflected its existing business. The market accounts were already there. The fair hydro plan came later the next year in terms of the accounting, so this was a change that affected them in 2016. The fair hydro plan came later in terms of the accounting. So it wasn't at that point that they reflected the fair hydro plan on their books; it was just they made that change—

**Mr. John Vanthof:** I agree.

**Mr. Serge Imbrogno:** So if we didn't go forward with the fair hydro plan, they still would have made that change to their books. I think that was the board decision. Regardless of whether the fair hydro plan comes into effect or not, the IESO feels, based on its review, that that's the appropriate accounting for its market books.

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**Mr. John Vanthof:** If I could—quite frankly, it does not give me or my colleagues a fuzzy warm feeling when—"You know what? One of the Big Four account-ing firms thought this was great. Just forget about the independent auditor of the province, who represents the province. We've got KPMG and Deloitte on our side and everyone in the province has got huge faith in them." That's not quite the case. They're credible. I'm not saying they're not credible; I'm not attacking them. But there's a whole difference between the Big Four and the Auditor General of the province.

**Mr. Peter Gregg:** Yes, and we do fully respect the role of the Auditor General and her office. We do fully accept that she has the right to audit our organization. We're open to that, and we've had a number of occasions to have interactions with the Auditor General. We're happy to co-operate with that and to provide access to all of the material that our external auditor gets and to answer any questions they might have.

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**From:** Veinot, Cindy (TBS)
**Sent:** March 14, 2018 4:42 PM
**To:** Ue, Allison (TBS); Angus, Helen (TBS); Hughes, Karen (TBS)
**Cc:** Hosick, Sarah (TBS); Laughton, Patrick (TBS); DiMuzio, Sofie (TBS)
**Subject:** RE: Circling back - FHP media call

Did anyone alert Deloitte and KPMG that their documents were being shared with others? That has been our practice in the past.

Cindy

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**From:** Ue, Allison (TBS)
**Sent:** March 14, 2018 4:38 PM
**To:** Angus, Helen (TBS); Veinot, Cindy (TBS); Hughes, Karen (TBS)
**Cc:** Hosick, Sarah (TBS); Laughton, Patrick (TBS); DiMuzio, Sofie (TBS)
**Subject:** FW: Circling back - FHP media call

FYI.

**From:** Gallant, Gabrielle (TBS)
**Sent:** March 14, 2018 4:35 PM
**To:** DiMuzio, Sofie (TBS); Ue, Allison (TBS); Pichelli, Jason (TBS); Poopalapillai, Christine (TBS)
**Cc:** Hadisi, Lawvin (TBS)
**Subject:** Circling back - FHP media call

Hi all -

I just spoke with Christine and received an email from Alison re a recent FHP media call.

I happen to be over at PO and they note that what we shared was -
3 decks used to brief media already
Deloitte statement that has already been distributed
KPMG report to AG and the IESO
a response that had previously been shared with media

From my perspective, none of this was contentious and given that Energy was taking the lead - I was not actively engaged in this process. I didn't see that we were adding anything new to the conversation, and thus took a backseat to it.

It seems as though we missed some connections, and I sincerely apologize for that.

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