

Consolidated Feedback on
Special Report – The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money

** Ministry of Energy comments, including Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) comments

Section #	Page #	Ministry/ Agency Source	Comments	Supporting Evidence Attached? Y/N
ENERGY COMMENTS				
Summary of Concerns	2	ENERGY (LSB)	Although the retainer agreement includes a cap of up to \$500,000 as of September 27, 2017 only 41,775.75 has actually been spent. In addition, the Ministry has provided 4,063 documents, as of September 26, 2017. The Ministry doesn't intend to spend more than 60,000 on this request.	TBD
Summary of Concerns	3	ENERGY (LSB)	"... so the government needs to borrow cash to cover the shortfall" This statement is factually incorrect in two respects. First, in its reference to "government". It is Independent Electricity System Operator (IESO) that needs to cover the shortfall. The IESO is not the "government" because IESO is not owned by the Crown, and under statute (Electricity Act, 1998) is explicitly not an agent of the Crown. Second, in its reference to "borrowing cash". IESO is not borrowing cash to cover the shortfall (except initially). IESO can sell its statutory right to recover the shortfall and use the proceeds of that sale to cover the shortfall.	N
Summary of Concerns	3-4, 11	ENERGY (ESPD)	The AG report states that the collection of the Debt Retirement Charge (DRC) and Ontario Fair Hydro Plan (OFHP) future recovery are similar in that the payments associated with each were/will be made "after the fact". Furthermore, the report states that the same accounting that was applied to the DRC should be applied to the OFHP given the similarity. There is, however, an important difference between the DRC and the OFHP. Namely, the DRC was implemented to recover general debt with no specific recovery schedule. The opposite is true for the OFHP, with the debt associated with specific generating assets recovered over their forecast operating lives (see comments below on operating lives). Therefore it is not the case that the accounting treatment that was applied to the debt related to the DRC need be applied to the debt associated with GA refinancing under the OFHP. Suggest revising the AG report content accordingly.	N

Commented [SM(1)]: Can we please clarify this comment?

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Summary of Concerns	3, 10	ENERGY (ESPD)	The AG report concludes that are a result of the government’s decision to not borrow directly in connection with GA refinancing, an additional \$4 billion in interest costs will be imposed on consumers over the life of OFHP, as OPG/OPG trust must pay a higher rate of interest compared to the Province. This \$4 billion figure was sourced from the Financial Accountability Officer’s (FAO) May 2017 report on OFHP. The FAO calculated this figure as the difference between financing at 5% (i.e., its assumed weighted average interest rate) and 4.5% (i.e., its assumed provincial borrowing rate) on interest payments of \$21 billion (which was also quoted by the AG). Note: No edits to the text are required, this comment is included for internal use only.	N
Summary of Concerns	4 and throughout	ENERGY (ESPD)	The AG report notes throughout that the Ontario Rebate for Electricity Consumers (OREC) is 8% of the OFHP’s 25% bill reduction for the proxy consumer. The 25% figure is an after-tax figure whereas the 8% figure is before-tax (i.e., 8% before tax is equivalent to 7.1% after-tax). Note: The breakdown is more like: 7% (OREC) + 16% (GA Refinancing) + 2% (tax-basing Ontario Electricity Support Program and Rural or Remote Rate Protection). Suggest correcting this reference throughout the AG report.	N
Summary of Concerns	4 and throughout	ENERGY (ESPD)	Under OFHP, consumers of all sizes will benefit from shifting cost recovery for the Ontario Electricity Support Program (OESP) and the majority of the Rural or Remote Rate Protection (RRRP) program from electricity bills to provincial revenues.	N

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			This action is expected to lower regulatory charges for all consumers by approximately \$3/MWh (or about 2% for a residential consumer). The AG report does not mention this aspect of OFHP. Suggest including the two paragraphs from this cell in the AG report and adjusting the commentary in the report accordingly such that this information about RRRP and OESP costs are reflected in the report.	
Summary of Concerns	4 and throughout	ENERGY (ESPD)	The AG report indicates on several occasions a 17% reduction in ratepayers electricity bills. However, due to the fact that the 8% OREC is a before-tax rebate and that the shifting of social programs (i.e., OESP and RRRP) to the tax-base constitutes a portion of the 25% reduction, the impact of GA refinancing on the proxy consumer’s bill is about 16%. Note: The breakdown is more like: 7% (OREC) + 16% (GA Refinancing) + 2% (tax-basing Ontario Electricity Support Program and Rural or Remote Rate Protection). Suggest correcting this reference throughout the AG report.	N
	8	ENERGY (LSB)	<i>“Province shows no increase in net expense because the revenue OPG earns from charging the OPG Trust interest and administration and other fees offsets the interest expense on the amount borrowed...”</i> This is not factually correct as stated. There is no explicit legislative or regulatory requirement for the revenue Ontario Power Generation (OPG) earns from charging the OPG Trust interest and fees to bear any relationship to the interest expense incurred by Ontario Financing Authority (OFA) in borrowing money for its equity infusions into OPG. Note: This might be an accounting issue rather than a legal issue.	TBD

Commented [SM(2)]: Can we please clarify this comment?

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1.3.1	8 and Figure 3	ENERGY (ESPD)	The OFHP costs included in the AG report (e.g., interest, debt, etc.) are higher than ENERGY’s August 31 estimates (see <i>Exhibit 1 below for further detail</i>). ENERGY’S August 31 estimates reflect the best available information regarding the parameters that impact OFHP cost (e.g., electricity bills, consumption, etc.) and are more likely to reflect how OFHP will progress over time. Consider including ENERGY’s August 31 interest, debt and total cost estimates in the report, or, at a minimum note that ENERGY’s recent estimates are significantly lower than the FAO cost estimates.	N
1.3.2	9	ENERGY (ESPD)	The AG report states that it is not at all certain that the electricity generators whose costs have been smoothed under OFHP will be in use to produce power in the future. Third-party expert analysis advised that the electricity generators that form the basis for GA refinancing will be able to operate after expiry of IESO contracts. The report also points out that future ratepayers do not yet owe anything until they consume electricity in the future. Electricity has always been priced according to this approach in Ontario, as currently represented through the Global Adjustment (GA) which varies based on consumption levels for Class B consumers. OFHP takes into account the best available long-term projection of Ontario electricity demand. Suggest updating the content in the AG report to acknowledge third-party expert analysis (i.e., that the electricity generators that form the basis for GA refinancing will be able to operate after expiry of IESO contracts). Suggest also removing the reference to future ratepayers not owing anything until they consume electricity in the future.	TBD
	13	ENERGY (LSB)	The Ontario Energy Board (OEB) is an independent adjudicative/regulatory body that is responsible for setting and approving electricity rates for consumers under the <i>Ontario Energy Board Act</i> (OEBA). All regulatory bodies are enacted	TBD

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			through legislation and OEB is not different than any other statutory body. In addition, the OFHP provides a structure for electricity rebates for consumers and does not undermine the OEB's independent adjudicative function. Suggest correcting this reference throughout the AG report.	
General	Throughout	ENERGY (ESPD)	The 8% Provincial Rebate is often referred to as a "HST rebate." The program is an 8% rebate on the consumer's pre-tax electricity charges. While this is equivalent to the provincial component of HST, the program is not a tax rebate. Tax is assessed in full and is not credited back to customers. Suggest correcting this reference throughout the AG report.	N
IESO COMMENTS				
4.4	14	IESO	Change was a deviation from Public Sector Accounting Standards (PSAS). IESO Response: PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. Paragraph 11 of the Introduction to Public Sector Accounting Standards ("Introduction") states: "When applying the CPA Canada Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles, Section PS 1150."	Y

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			http://www.knotia.ca/Login/ViewEmailDocument.aspx?uniqID=233710&productID=660&sGotoStr=ps+1150&pageLanguage=en	
4.5	15	IESO	Prior 5 years of financial statements re-stated to reflect regulatory assets and market accounts. IESO Response: The IESO's financial statements reported regulatory assets and market accounts beginning in 2016 and at that time IESO restated financial statements for 2015. Prior to the merger of IESO and Ontario Power Authority (OPA), the OPA did include a subset of market accounts in their audited financial statements.	TBD
4.5	15	IESO	OEB did not consider IESO to be an electricity rate-regulated entity like Ontario Power Generation (OPG). IESO response: The IESO is rate-regulated by the OEB in accordance with the Electricity Act, 1998 (Electricity Act) and the Ontario Energy Board Act (OEBA). The IESO activities subject to rate regulation by the OEB include the following: (a) IESO's expenditure, revenue requirements and fees; (b) Smart metering activities; and (c) A subset of market accounts.	Y
OPG COMMENTS				
	Several	OPG	Label – There is no OPG Trust entity rather it is the Fair Hydro Plan Trust. This should be changed.	
	8	OPG	Factual matter – AG report states the OFHP will be finalized and completed by 2045. Believe the correct end date is 2047.	

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	7	OPG	Implication in several sections that the OFHP roll out results in a “less transparent” process. With the financing plan, similar to several jurisdictions in the U.S., and a form or securitization that is commonly used in the financial markets the impact of the plan will be transparent. Credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.	N
	3, 9, 11	OPG	Basis to create “legislated asset” and comparison to Ontario Hydro Stranded Debt. There is a key difference: STRANDED DEBT – Was recognition of an existing over valuation of Ontario Hydro assets that, upon the company’s break up and recapitalization, reflecting fair values at the time, had no future value to electricity consumers OFHP Asset – represents the additional payment by customers today that will benefit future customers. The OFHP is a way to smooth those payments streams out to ensure ratepayers are fairly paying their fair share of current and future assets.	N
	12	OPG	Related to the above argument on the value / existence of an asset – The “substance over form” The government differentiated the reductions in consumers’ electricity bills that are being borne by the tax-base as a whole (i.e., 8% Rebate, certain programs to help rural customers) from those that have a long term benefit (the 17% referenced in the AG report). By establishing the deferral amounts off today’s bill and charging it to future consumers, that is providing substance by ensuring future ratepayers pay their share of system costs at the right time.	
	13	OPG	The role of the OEB and its mandate, is provided in legislation. It is not uncommon for government policy, through Regulations, to provide the ground rules over which the OEB is to preside. That is the case with the OFHP itself as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review and	

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			make conclusions on submissions brought forward (rates to charge certain customer classes, basis of interest and appropriateness of fees charged to ensure they are benchmarked and reasonable, etc.).	
Appendix	2	OPG	References a provincial guarantee. It is more appropriate to indicate limited guarantee. The support provided has specific conditions rather than a full guarantee.	

Exhibit 1: OFHP Cost Comparison

	Interest	Debt	Total	Peak debt	Saving if Province funded entire refinancing
March 1 - ENERGY estimate	25.1	20.3	45.4	27.7	n/a
May 24 - AG / FAO report*	21.0	18.4	39.4	26.2	4.0
August 31 - ENERGY LTEP estimate	18.3	12.8	31.1	18.5	n/a
*Cost data included in Auditor General report references FAO report and contains the same values					