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Section #	Page #	Comments	Supporting Evidence Attached? Y/N
General	Throughout	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 OAG report.	N
	Several	Label – There is no OPG Trust entity rather it is the Fair Hydro Plan Trust. This should be changed throughout the OAG report.	N
Key Issue	1	First sentence below the recommendations – implies the Province has passed legislation dictating the accounting for the transaction. This is factually incorrect.	N – Legislation – already in the report
Summary of Concerns	2	*"…the government's intention in creating the accounting/financing design to handle the costs of the rate reduction was to avoid affecting its fiscal plan."* The government's intention was to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment (GA) cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.	
Summary of Concerns	2	*"Our work included interviews and a review of documentation, including emails. We received all information we requested with one exception. The Ministry of Energy signed a contract,* ***<u>with a retainer of $500,000</u>*** *~~for a maximum of $500,000~~, to* ***provide search services and to compile emails responsive to our request.*** *At the time we completed this Special Report, the Ministry had* ***provided us <u>with 6,940 emails and attachments, with more expected and the costs are not expected to exceed $60,000</u>.*** *~~still not provided us with all of its emails, which we requested on May 31, 2017.~~"* Update statement with language in "bold and underlined" and remove text in "strike-out". 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 6,940 emails and attachments as of October 3, 2017. The Ministry does not intend to spend more than $60,000 on this request.	Y

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Summary of Concerns	3	*"… so **IESO will sell its statutory right to recover the shortfall and use the proceeds of that sale to recover the shortfall** ~~the government needs to borrow cash to cover the shortfall~~"* Updated statement with language in "bold and underlined" and remove text in "strike-out". 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, 2.0	3, 10	The report concludes that as 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; however, accumulated interest is projected to be considerably less than estimated in the FAO's May report. Total borrowing for the program has been revised down substantially since May, from $27.7 billion to $18.5 billion, and OPG's borrowing costs are now forecast to be lower than original estimates.	N
Summary of concerns	4	The first bullet on the page notes that the FHP legislates the accounting which is factually incorrect and should be deleted.	N – Legislation – already in the report
Summary of Concerns	4 and throughout	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

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Section #	Page #	Comments	Supporting Evidence Attached? Y/N
Summary of Concerns	4 and throughout	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. 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 sentences above 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.	N
Summary of Concerns	4 and throughout	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
1.1	5	*~~"The government made a critical decision early in the process…it should not disclose the deficit incurred from this required borrowing, nor should it add to the amount the government would report as Ontario's net debt.~~"* Delete this statement. It is not a fair characterization as no deficit was incurred. The policy intent was always that electricity consumers would receive the benefits and be responsible for paying back the debt over the long term.	N
1.2	6	~~Private-sector accountants, lawyers, and bankers were engaged to develop and support the plan.~~ Delete this sentence and replace with the following the following to more accurately portray the role of third party experts: "The third party experts were consulted to provide advice and ensure appropriate due diligence was completed."	N

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1.2	6	*"Working through ~~and around~~ the recognized risks to achieve the desired accounting results…ongoing spending on private-sector advisers had exceeded $2 million when we completed this Special Report."* Delete reference to "around" as it is inaccurate. Government was mitigating risks not working around them.	N
1.2	6	The design options were not all rejected because they would show an increase in the deficit or net debt. For example, one option considered was to have the LDCs finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some of the LDCs to finance the balances. This option was detailed in an email provided to the OAG from Cindy Veinot dated February 2, 2017 at 7:02 pm.	Copy of email
1.2	6	Please provide a copy of the emails that support these bullets on this page.	N
1.3.1	7	The cumulative accounting results shown in figure 3 are not in accordance with Canadian PSAS. The reference to figure 3 and figure 3 should be deleted.	N
	7	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
	8	*"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…"* 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 the Province in borrowing money for its equity infusions into OPG.	N

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1.3.1	8 and Figure 3	The OFHP costs included in the AG report (e.g., interest, debt, etc.) are higher than ENERGY's August 31 estimates (s*ee Exhibit 1 below for further detail).* 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
	8	Factual matter – AG report states the OFHP will be finalized and completed by 2045. The correct end date is 2047.	
1.3.2	9	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).	Y
1.3.2	9	The statement is made "*key to achieving this result is calling the 17% revenue shortfall or net expense a "regulatory asset*". This is factually incorrect. It does not matter what an item is labeled within the legislation. The accounting for the transaction will be based on Canadian Public Sector Accounting Standards. This sentence should be deleted. As previously provided to the OAG by IESO and KPMG, the transaction is expected to result in an asset that meets the definition of an asset based on PSAS and the guidance on rate-regulated accounting in US GAAP. That analysis, in summary is:	N

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		Under Canadian PSAS, assets are defined by three characteristics: a) they embody future economic benefits (of which one is the ability to generate future cash flows); b) the entity has full control in order to access those benefits, and c) they must result from a past event. The decision by the IESO to apply the rate-regulated rules under US GAAP does not create an inconsistency with the definition of an asset under Canadian PSAS. The shortfall which is being reported as an asset by the IESO embodies a future economic benefit based on the requirement of the specified ratepayers to pay these deferred amounts in the future. IESO has control to access those benefits either by selling the regulatory asset or by holding the asset until the payments by the specified ratepayers are received in the future. Finally, the asset results from a past event which is the payment to the generators for the generation of power. It is important to distinguish legislating the accounting from legislating the right for the government to recover amounts from specified ratepayers in the future, based on costs incurred today. Enabling the IESO to sell the future right to recover of this shortfall from specified ratepayers provided under the *FHP Act* is not legislating the accounting. The statute does not direct the government how to account for the shortfall. The statute provides for recovery of the current shortfalls from the specified ratepayers in the future, reflecting the policy decision to have the GA refinancing borne by the specified ratepayers, and in doing so, creates an obligation on the specified ratepayers to pay an amount in the future. The obligation on the part of the specified ratepayers is a future economic benefit to the government.	
Summary of Concerns 3.0	3-4 11	The following text should be removed from the report (p. 3-4): ~~*"The government applied a correct accounting treatment for the electricity sector's stranded debt in 1999/2000, and there is no good reason for it not to apply the same accounting treatment to the debt that will accumulate as a result of the Fair Hydro Act's rate reduction"*~~ (p. 10-11) ~~"**3.0 Historical Ontario Precedent in Proper Accounting For Electricity Costs Not Yet Being Billed to Ratepayers**~~ ~~There is a precedent for Ontario electricity costs being billed to ratepayers well after they were incurred.~~ ~~In 1999, the government of the day made a policy decision to restructure the Province's electricity sector. The policy decision resulted in the government becoming responsible for the former Ontario Hydro's net debt of $19.4 billion (technically referred to as "unfunded liabilities" or~~	OEFC 2016-17 Annual Report

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		~~"stranded debt"). The costs that created the debt were incurred over a number of years before 1999, but ratepayers had not been billed for them at the time. Instead, starting in 2002, ratepayers began paying down the stranded debt through a "debt retirement charge" on their bills.~~ ~~The collection of the debt retirement charge and the Fair Hydro future reduction recovery are similar in that both stem from government policy decisions and did not result from an independent regulatory process. As well, the payments were/will be made much later, "after the fact." However, in the 1999/2000 fiscal year, the government followed Canadian Public Sector Accounting Standards properly, and included the debt and the expenses related to it in the Province's consolidated financial statements. When the debt retirement charge was added to electricity bills, the charge to ratepayers was taken in as revenue in the Province's consolidated financial statements. This treatment allowed the government to track ratepayer costs and taxpayer costs separately, helping to ensure that only ratepayers, not taxpayers, pay for electricity services.~~ ~~The same accounting should be applied to the Fair Hydro Plan rate reduction: include the debt being accumulated through the 10 years of the reduction as Provincial debt, and record interest expense on this debt as an expense in the Province's consolidated financial statements. When the clean energy adjustment is added to electricity bills, the amount charged to ratepayers can then be taken in as revenue in the consolidated financial statements, as well as be tracked separately from taxpayer expenses/revenue"~~ The report makes a comparison between the OFHP and the OEFC stranded debt. There are, however, crucial differences. The latter had already been incurred when the restructuring took place. In the case of the OFHP, the difference between what will be collected and what will be paid to generators will be set up as an asset and in accordance with the accounting definition, generates a specific revenue stream in the form of the CEA. Also, it is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and 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. This was a normal regulatory practice which matched the timing of the capital cost recovery with the benefit to the ratepayer. The 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 GA deferral is also intended to have costs recovered from specified ratepayers over a time period to better reflect the expected lives of those assets (vs the contract lengths, that may be shorter than the expected useful like of the assets). The difference between the	

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		1999 restructuring and the OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under the OFHP, an asset is being created to ensure a fair allocation of electricity costs between current and future ratepayers. The intention of the OFHP is to be forward looking to ensure that ratepayers are fairly paying their share of current and future costs, while the DRC was backward looking, replacing part of a bundled rate that way already spreading the cost recovery of the debt over time. The penultimate paragraph in section 3.0 notes the government, in 1999/2000, "…included debt and the expenses related to it in the Province's consolidated financial statements". This statement is incorrect. The recording of the stranded debt never resulted in an expense in the consolidated financial statements. The amount of the debt was charged directly to accumulated deficit.	
	12	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	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 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.).	
4.3	13	The first sentence of the second paragraph states: As introduced in Section 1.3.2, the asset that the Fair Hydro Act creates is referred to as a "regulatory" or "rate-regulated" asset. The terms regulatory and rate-regulated are not interchangeable and the sentence suggests they are. Regulatory asset is a defined term in the legislation and rate-regulated asset is an accounting concept used to appropriate account for rate-regulated entities meeting the appropriate criteria. In addition, the legislation does not create an asset. The recording of any asset resulting from transactions of the Fair Hydro Plan will be assessed for recognition based on Public Sector Accounting Standards (PSAS), and where appropriate other accounting guidance where PSAS is silent on the issue. Suggest this sentence be deleted.	N

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4.3	13	The second paragraph states "*one of the requirements for recording a regulatory asset in the U.S. is that there must be an independent regulator…*" This statement is incomplete. The guidance in US GAAP is as follows: *The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator* ***or by its own governing board empowered by statute or contract to establish rates that bind customers. [ASC 980-10-15-2]*** The omission of the second part of the criteria is misleading. The U.S. accounting standard was developed specifically not to preclude the application of rate regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent. [FAS 71, par. 64]	FASB accounting standards
	13	The Ontario Energy Board (OEB) is an independent adjudicative/regulatory body that is responsible for setting and approving electricity rates for consumers under the *Ontario Energy Board Act* (OEBA). All regulatory bodies are enacted 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.	N
4.4	14	The second sentence begins "*so by legislating the accounting…*" This statement is factually incorrect. The Ontario Fair Hydro Act does not legislate the accounting. Sentence should be removed	N – Legislation – already included in report
4.5	14	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 should consult other accounting standards. 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.	Y

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		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." http://www.knotia.ca/Login/ViewEmailDocument.aspx?uniqID=233710&productID=660&sGotoStr=ps+1150&pageLanguage=en	
4.5	14	~~*"…that senior officials and their advisors…decided that…financial statements needed to show a regulatory asset and to include the IESO's market accounts as assets/liabilities…"*~~ Delete this passage as it is inaccurate. The IESO Board made the decision to amend its financial statements.	Y
4.5	15	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.	N
4.5	15	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
4.6	15	The second paragraph is factually incorrect. There is no guidance under Canadian PSAS that requires the balances recorded in IESO resulting from the Fair Hydro Plan to be eliminated upon consolidation. Sentence should be removed.	N – Public Sector Accounting Standards

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4.6	15	The first sentence suggests that Ontario has created an asset under legislation which is factually incorrect. Sentence should be removed.	N – Legislation – already included in report
5.0	17	The last sentence of the first paragraph states, "…their opinions… do not extend to the Province's consolidated financial statements." The use of the term "extend" suggests that their opinions are not relevant to the determination of the accounting for the transaction in the financial statements of the Province. This is not correct and should be clarified.	N
Figure 1	1	Figure 1 is misleading as it omits the flow of transactions during the period the debt is repaid.	N
Figure 2	2	Figure 2 is misleading as it omits the flow of transactions during the period the debt is repaid.	N
Appendix	2	References a provincial guarantee. It is more appropriate to indicate limited guarantee. The support provided has specific conditions rather than a full guarantee.	N

***Exhibit 1*: OFHP Cost Comparison**

	Interest	Peak debt	Saving if Province funded entire refinancing
March 1 - ENERGY estimate	25.1	27.7	n/a
May 24 - AG / FAO report*	21.0	26.2	4.0
August 31 - ENERGY LTEP estimate	18.3	18.5	n/a

*Cost data included in Auditor General report references FAO report and contains the same values