

GOVERNMENT RESPONSE TO OAG REPORT ON THE FAIR HYDRO PLAN

The government of Ontario does not agree with the assertions and conclusions expressed in the report by the Office of the Auditor General (OAG) on *Ontario's Fair Hydro Plan (OFHP)*.

In developing OFHP, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Since 2003, more than \$37 billion has been invested in electricity generation to ensure the system is clean and reliable. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the terms of their contracts. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the Global Adjustment (GA) provides significant and immediate rate relief by matching the cost of electricity investments with the expected useful life of the generation that has been built. GA refinancing is being done in the most effective manner possible, achieving the goal of the refinancing from within the electricity system, and ensures that the deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

With respect to the Province's financial statements, they are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. As PSAS is set by an independent standard setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.