Media Event: Ministers Thibeault and Sandals Respond to the Auditor General's Report on Fair Hydro Plan

October 17, 2017

Time / Location:			
1:30pm / Kenora/Nipigon/Nipissing Room, MacDonald Block			
Speakers:			
Ministers Thibeault and Sandals			
Media Attendance:			
	Print – 10	TV - 8	Radio – 2
Media Outlets:			
Jones – CP; Benzie – Star; Cohn – Star; Globe; Artuso – Sun; Smith Cross – QP Briefing; Hains – QP Briefing; Reynolds – QP Briefing; Smith – QP Today; Crawley - CBC Radio/TV; Lamoureux - Radio Canada TV; Brule - Radio Canada/CJBC; Carter – Global; Bliss - CTV Ontario; Rath - CHCH Television; Tumelty - City TV; Morissette – TFO; CP24			

Q: Benzie: Hi, the auditor general basically said the government (inaudible) going to bankroll this – I'm just trying to understand a) did you pull a fast one? and b) why did you pull a fast one?	Minister Thibeault: So there were no fast ones being pulled at all. What we've made is a policy decision to ensure that we can keep electricity assets where they need to be, within the electricity system. And when it comes to the accounting, I know the President of the Treasury Board can talk specifically to that, Robert, so I'll hand it over. Minister Sandals: But I think it actually is worthwhile to back up and talk about the policy decisions that were made because I mean, obviously, there was lots of concern in the public about rising electricity prices and we as a government wanted to respond to that. And we I think as a Cabinet made two key policy decisions. One was when we looked at what was on the hydro bill, we said 'You know what? There's a lot of things that are now appearing on the hydro bill that are really social policy.' And I think in the technical deck that you got, it pointed out that we separated things that are social policy belong in tax and the number you have there is over $7 billion over the first five years is actually going on to the tax base. But those are the social policy. And then we said but the things that's truly electricity belongs on the rate base. And furthermore when look at many of our generating assets – they're over 30, 40, 50 years – why is it that the newer contracts are only 20 year contracts? Why shouldn't they reflect the life of the asset like our other generating assets? So we made another policy decision, which was to smooth the cost of those generating assets over a longer period of time. After that, it was over to that variety of experts, the people from the various electricity sector organizations within Ontario, but also to some of the biggest accounting firms we have here in Canada that serve the whole world. I mean these are well-respected accounting

	firms, and brought them into the discussion as well. And I think perhaps the essential accounting dispute we have with the auditor is a dispute over what happens when the Canadian public sector accounting standards are silent, when they don't give direction. And we keep running into this problem because quite frankly Ontario's the biggest province and we often have bigger projects and do things a bit differently than all the smaller provinces. So we've run into this problem with the auditor previously. But if I can read you what it actually says – this is the public sector accounting handbook for Canada. It says: "No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP, which is to say generally accepted accounting principles. And it is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting that you're presented with." So in the case of the electricity system, when we found a hole as it were in the public sector accounting standards, we actually turned to what is primarily the accounting used by our big counterparts that have an organization equivalent to IESO, which is to the U.S. GAAP, the U.S. generally accepted accounting principles, and used the direction we found there, not because we're not following Canadian standards, but because the direction is absent in the Canadian standards, which means if we followed the standards it says go and look elsewhere, and that's where elsewhere happens to be, is in the U.S. generally accepted accounting principles, because they're bigger, they're more complex, they actually cover the circumstances in which Ontario finds itself.
Q: Crawley: The average voter out there doesn't know anything about generally accepted accounting standards and couldn't give two hoots. What they care about is whether something passes the sniff test. Why should we believe that it passes the sniff test, that a government policy decision to borrow $20+ billion and cut hydro rates that way, doesn't get shown on the government's books?	Minister Thibeault: So very simply, we talked with, as I mentioned, the Secretariat – we've used the world-class experts of KPMG, Deloitte, and E&Y to make sure that everything that we were doing is, as you're saying, above the sniff test. And so making sure that when we made the policy decision to keep this on the rate base that we ensured that we didn't cross-pollinate with the tax base. We did use the tax base to take the social programs off and we've been very clear about this since the beginning. We always said, like we were talking, that we were using this like we were remortgaging our house right? That was one of the analogies we used. We always said it's going to take longer to pay off and it's going to cost more, but at the end of the day, you know, we're relying on the experts that we have within the public service, we're relying on the experts that we have when it comes to accounting firms, and we're relying on the experts that we have from our third party energy sector partners in this, to make sure that everything that we're doing goes back to our policy decision, is to keep this off of the tax base. Minister Sandals: And if I can –
Q: Crawley: What house exactly are you	Minister Sandals: I think, in part, the answer came to you

remortgaging? The auditor says there is no house. You don't own these power plants. These power plants have been built through – they're being built or have been built through the global adjustment money, are privately owned. So what house exactly are you remortgaging?	from some of the comments that we had from OPG which is that – to respectfully disagree with the Auditor about whether we have an asset of any value, the fact that we have credit rating agencies who are having a serious discussion about how to rank the credit rating tells you right there that there is a sale-able asset. I think that the comparator was used that this is just like your debt and your credit card. Nobody wants to buy the debt on my credit card but in the case of OPG and the Fair Hydro trust that has been set up, the credit rating agencies are actually ranking that credit in preparation for selling it and that's the difference. Somebody actually wants to buy it, ergo it is an asset. But I think the other question that I asked as somebody who is responsible for the public account but who is not an accountant is, part of my question was how do we usually do this? And if you ask OPG how do they usually do it if they want to borrow to retrofit a nuclear plant or to build a hydro dam, they go to the market and that borrowing stays on OPG's books. So the debt that OPG incurs to build a hydro dam or in this case we're talking about renewable assets office often, it stays on OPG books. You don't see a separate line. OPG's total value is consolidated on our books but it doesn't come out as a separate line on OPG's books so we're actually doing it the way it's always done. We're not doing something that's different. We're actually doing something that is very much the same as the way it is usually done which is to me what we are driving for which is consistency which is easier than, in terms of transparency and accountability, if you are consistent in the way you treat things.
Q: Rath: The province spends $16 million or more a year to keep the auditor's office running. If she can't get it right as you seem to say, is that a waste of money? Is that a waste of tax dollars even having an auditor?	Minister Thibeault: So I think, first off when we're going through and I'm just trying to understand the question, when we were going through making our policy decision, it wasn't appropriate for us to actually involve the Auditor because this was a policy decision. But at the end of the day, as I said in my opening statement, we value the input that the Auditor General and all independent officers provide to the Legislature. Minister Sandals: Well, I think if you look at the larger issue of all the work that the Auditor does, my Ministry actually has a continuous and close working relationship with the Auditor and there are lots of areas in which we've said there were – nobody notices when we take the Auditor's advice. There were more areas in this year's public accounts where we said, yes we accept the advice of the Auditor and we will do the auditing this way. Or when she's doing a value for money, yes we accept the advice of the Auditor. Obviously there are areas where the professional advice that we get from external firms, the professional advice that we get from our own internal people differs but that doesn't mean that the office doesn't have a valuable role in the work that it does.
Q: Bliss: Hi, further to that answer, it's pretty easy to go out and buy professional advice.	Minister Sandals: Ultimately, voters will make up their own mind but I think we also need to go back to what it is we are

That's what consultants do. So when I, as a voter, come to election time and you guys have legislation now that will trigger a review of government books to make sure that they're not being cooked the way that they were when you took power in 2003 by Conservatives and you found a $5.5 billion debt, the Auditor says now that terms like "balanced budget," "deficit," "asset," and "net debt" will be meaningless. So why, ten months before an election, are you going to put voters in a position to decide whether they have to believe you or an independent officer of the Legislature?	trying to accomplish here. It's been absolutely crucial that we reinvest in our electricity system, both for reasons of getting rid of coal which I talked about –
Q: Bliss: I'm not talking about the policy. I'm talking about transparency and truth. Truth is – "true" is a word that the Auditor General used. We've all covered the AG. I've never seen the AG so wound up. I've never seen such harsh language. She's calling you guys out on this so is this allowing you to lie and fabricate numbers?	Minister Sandals: Absolutely not. And as I said, when I look back at the questions I asked as we thought about how does the separation from tax and rate base occur, how does the smoothing of this occur, I kept asking the question, what is the normal practice, because I think in order to be accountable, we have to have similar practice. In fact, OPG already does and always has used rate based accounting. Hydro One already does and always has used rate based accounting. The Ontario Power Authority, which was – in terms of part of its role, the predecessor – it used rate based accounting and IESO has now adopted market accounting to reflect that OPA function it rolled in. All of those have been signed off previously with the exception of the most recent books by the Auditor – all auditors – as legitimate accounting. We didn't just introduce rate based accounting. This is the accounting that the electricity sector has used and not just Ontario government entities but also local distribution entities use rate based accounting. This is the norm within the electricity sector and we do bump into this when you're dealing with an electricity sector within the public sector books. How do you manage that? And I already told you what the direction is from the public sector accounting standards which is go and find where the detailed direction is but the idea that somehow going to rate based accounting and that the electricity utility would borrow on its own at market rate, like those are the long standing accounting principles that have been accepted within Ontario. We're not inventing something new.
Q: Carter: The basic assertion by the auditor is you have to set up this accounting system the way you have so that you can keep the debt off the books and have a balanced budget. True?	Minister Sandals: No. What is true is that we said we are going to put things that are social programs on the tax base and that will show on the province's book to the tune of $7.7 billion over three – or five years. And what is electricity sector, we are going to put on the electricity books and the way in which that debt is shown is the same as whenever OPG borrows for any purpose whatsoever. We're not changing the accounting.
Q: Carter: This is the contention I've had all along about why are you saying 25 per cent off when there's two different things, you're putting them in two different places, I'm going to let that go. What I am going to say	Minister Sandals: Because the normal way to fund electricity system generators in the province of Ontario, or to the best of my knowledge any other jurisdiction where the province isn't owning everything directly, is that the electricity generator borrows on the market. Why would we change

though is explain to the people of Ontario why you would not choose the cheapest way to make this happen? The auditor says your plan cost them an extra $4 billion.	that?
Q: Carter: Because it's $4 billion cheaper that's why you would change it.	Minister Sandals: But if that was – if you are going to take that logic then we should go out and borrow for nuclear generators. We should go out and do the borrowing for hydro dams. We should go and do the borrowing for whatever the form of electricity generation is and that is not the history of how we finance electricity generation in the province of Ontario. Why should we change from the normal practice? We're following the normal borrowing practice of the province.
Q: Smith Cross: Minister Thibeault, the auditor general says that you signed a contract with a law firm for half a million dollars to receive help in answering her search for e-mails but that that law firm hasn't turned them over yet – turned them all over yet so why did you need a law firm to help with this and why haven't you turned over all of the e-mails yet?	Minister Thibeault: So the auditor general asked for a very vague subject matter of global adjustment in terms of what she asked for which produced I think over a hundred and some thousand e-mails. And so the law firm is then going through making sure that all of the e-mails that we are providing are relating specifically to this, to this issue and we've already provided I believe it's 7000, and we're going to continue to provide more to meet that demand.
Q: Smith Cross: When do you expect to have them all to her?	Minister Thibeault: Obviously as soon as possible.
Q: Globe and Mail: The auditor says she's got an e-mail from a senior staff, senior official, saying that they hope to come to your senses and you would do the cheaper, simpler plan. So why not just do the cheaper simpler plan? It takes the auditor almost an entire page just to explain this structure that you guys have come up with.	Minister Thibeault: All of that again relates back to the policy decision. The policy decision was keeping this on the rate base, the way it's been done in the past. And, you know, again I'll emphasize we used world class experts KPMG, Deloitte, E&Y, you know, third party electricity experts. Again when you're talking about OPG and the experience that they have in this, this is just the way it's been done. And as to Minister Sandal's mentioned earlier we would then say OK what we're saying is we want to have all of the borrowing through the energy sector be done through the province and then take that on which is not what we want to do and really if you want to take it one step further you know the federal government has the cheapest form of borrowing. Does that mean if we were to take that logic that we would say well all the federal government should do all the borrowing? We are keeping with our past history, with our practices. We relied again on the professionals within the OPS. We relied on world experts, third party experts and within the electricity system and we brought it back to our values and to our policy decision to make sure that we take the social programs off of the rate base and put those social programs onto the tax base and at the same time keep all of our electricity costs within the electricity system and that's where the rate payers, the rate payers, are the ones that benefit and they're the ones that should be paying for those costs.
Q: Globe and Mail: Just one thing I don't get here. You keep comparing the asset here to dams, to big physical assets that OPG bills, these things that have value. You're not selling a big physical asset, you're selling	Minister Thibeault: But this one is through the rate base right? And even the IESO said that they have created an asset that now, as Minister Sandals talked about, that the creditors are actually looking at right now and will buy. This is an asset that actually will generate revenue. So that's why

the right to take money from people for 20 years, give or take, however long it takes to get that money back. Isn't that the type of thing the government does all the time?	keeping with the practice that was done in the past, that's how this works. And that was what we got in terms of advice from our external experts that we talked to as well.
Q: Lamoureux: [Speaking in French] Ontarians have been complaining for years that they pay too much for electricity. What is the advantage for Ontario, for the people who have to pay their electricity bills? What is the advantage for them with this new plan, to go with this rate-based accounting, rather than borrowing? What will this do for people who are sick of paying high electricity fees?	Minister Thibeault: [Speaking in French] The advantage for the people of Ontario is a 25 per cent rate reduction. But the development of this program… [Speaking in English] It's the system that we have always used… [Speaking in French] It is historically the system we have always used. And now, the government has decided to not change the –
Q: Lamoureux: [Speaking in French] So, why don't you change it if it will cost less money?	Minister Thibeault: [Speaking in English] I am not going to get it all in French, I apologize. But, still working on my lessons. Recognizing that the estimates that were brought forward by the FAO were just that – they were estimates. We are going to continue to work to find ways to pull costs put on the system. That's what we are going to do, that's what we are talking about with the long-term energy plan, which I know most of you now know is coming out next week. So for us, making sure that when we make our policy decisions, that our policy decision was that to keep the history of the way things have always been done – because we can't cross-pollinate with tax base and with rate base, because that's a completely different type of discussion.
Q: Lamoureux: Speaking in French] But the auditor general is accusing you of hiding the real impact of this plan. That is a serious accusation. And she is also accusing you of hiding information.	Minister Thibeault: [Speaking in English] We are absolutely not hiding anything. [Speaking in French] We have not hidden anything, not a single document, because the information… [Speaking in English] Will be presented through the OPG's reports, it will also though the OSC. There will be many ways that if people are interested that this information will be transparent and open for everyone to see.
Q: Regg Cohn: You're all trying to make us experts in rate regulated accounting. I think I understand your response to the credit card debt analogy that the auditor used. You're not buying debt, you're buying cash flow effectively with rate regulated accounting. I understand your argument about consistency with rate bases and tax bases. What I don't understand is that and that you don't you as a province don't borrow for nuclear reactors or dams. The difference is that OPG doesn't actually own these assets. It's really acting as a financier for you. And that's why I'm curious why you still couldn't use the Ontario Electricity Finance Authority or any other entity to act as your financier. So these aren't actually OPG's assets. I get that Guelph, where you're from Minister,	Minister Sandals: But I think the thing that we need to remember is that the idea between the policy decision, when we go back to the original policy decision, that what we wanted to do was to take assets that were generating assets, that we had contracted for 20 years and say 'you know what, those assets have a life of 30 years. They have an asset –

uses this accounting framework, but they own those assets. OPG doesn't in this case, even though they are owning half of the province's generation.	
Q: Regg Cohn: I just want to say, from what I understand after all these briefings. Can I just ask – so these aren't OPG's assets. That's my specific question. So why should they be financing Bruce Power's assets?	Minister Thibeault: OPG is the vehicle that we're using to actually finance what Liz was talking about. And OPG is the expert in this. And I know you heard from them in the technical briefing. But really at the end of the day when you're looking at the entity that can actually do this, it is OPG. They've got the experience of handling large procurements like this. They can also make sure that they get the best rate possible. And so that's why I know when Ken was here speaking to you earlier, he talked about – you know the question was related to $4 billion. That was the FAO's number. They're going to continue to work to actually reduce that even more. So that's why we've actually utilized OPG to beat us. We're not talking about OPG assets. They're one of the experts that we should be utilizing in this field, especially when you start to consider having you know the CEO Jeff Lyash, who's involved in this. He's been involved in similar transactions in the United States. There are 18 other jurisdictions in the U.S. that have done this. We are not the first.
Q: Regg Cohn: I remember this conversation from last spring when you rolled this out. Why couldn't you borrow their expertise, but put it on your books?	Minister Thibeault: Because the policy decision for us was to keep it on the rate base, where all electricity acquisition and debt has been done in the past. We kept with our history. Minister Sandals: And the policy decision was that the life of that generator, for the people that were going to be using that generator, whatever the source is, nuclear, renewable electric hydro, that the people who are going to use that generating resource should pay for it. And those are the customers for the next 30 years. In the case of some of the assets, they may be good for 40 or 50 years. But that the assets were longer than 20 years, we had Navigant check that out and that the people that are going to use the asset we should spread the cost of that asset over that customer base.
Q: Smith: So you're saying that you used all these advisers, external advisors, public sector advisors when you were consulted. One of the things that Lysyk says in her report on this is that when you originally went to them, the mandate that you presented them, was at the accounting treatment for the 16 per cent rate reduction should not affect the fiscal plan. Is it true that when you went, your first sort of discussions on this that that was the starting point?	Minister Thibeault: So in our initial discussions we were looking at many options of finding ways to reduce the rates for Ontarians. And one of the first things that we looked at was seeing if we could utilize our local distribution companies, our utilities, to see if they could actually carry some of that debt in the way that we could pay it back through the ISO, but that ultimately didn't work. It didn't work best in terms of making sure that it matched our policy decision. And it also you know were one of the options that we looked at. So there are other things that were considered. But ultimately at the end of the day this was the right thing to do for Ontarians. It still is the right thing to do for Ontarians because we are making sure that rates are coming down by 25 per cent for every single household in this province. And we made sure that we utilized all of these experts to make sure that we did have the proper accounting practices in place, and that's why we have this

	accounting dispute with the auditor general right now because we did do what we said we were going to do with our policy decision, and it's matching the values that we said from that.
Q: Smith: But did you refuse to consider any ideas that they put forward that would have put a dent in your budget?	Minister Thibeault: Can you repeat the question please?
Q: Smith: Did you refuse to consider or knock out any ideas that would have put a dent in the budget or added to the deficit? Sorry other way around, a dent in the deficit or added to the debt?	Minister Thibeault: So all avenues were open. We were looking at all possibilities to make sure that we could reduce rates for the Ontario rate payers. At the end of the day, this was the best way possible in keeping with practices that have been done in the past in the electricity sector and our policy decision was that we take the social programs off of the rate base put those onto the tax base and then we keep the electricity debt where it should be and where the ratepayers will benefit from that.
Q: Artuso: Your government has been accused in the past of having fun with numbers on the energy file and thinking specifically of the cost of the gas plant re-locations. So are you concerned that maybe you have a public trust deficit that perhaps people won't believe you simply because of what's gone on in this file in the past?	Minister Thibeault: I look to the people that we have involved in this process as well which are the third party experts, and the third party auditors, so you know, we have KPMG involved, we have E&Y involved, we have Deloitte involved, you know we have the provincial controller, we have the Treasury Board, we have the ministry of finance involved, cabinet office. Everyone was involved in this process to make sure that all of our numbers have been as transparent as can be. I'm confident that everything that we've been doing and working with all of our experts in this process that we've been transparent with this.
Q: Crawley: This whole thing about your principle about wanting this to be covered by the rate base, not by the tax base. In past years the government has been quite fine with dealing with electricity costs through the tax base. There was the clean energy rebate of 15 per cent. There is the rebate on the HST now coming off. And I think the debt retirement charge, was that not carried on the governments books? So I don't see how this is different. I still don't understand how is ought not to be carried on the government's books given that you've done these other things in the past.	Minister Thibeault: But you're not comparing apples to apples and that, right? In the sense that if you're talking about the stranded debt of the debt retirement charge, that was debt that was accumulated already and that had to be paid off and nobody would buy it. Where now we have an asset that people are interested in buying that we can actually accumulate revenue from that. So there are two different areas and that's why the tax base needed to be used to pay off that debt in the past where now we're keeping with our past history of making sure that we can now have a revenue generator for us to actually continue to operate that we always have.
N.B.: Comments captured are not verbatim quotes	