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Your morning briefing

18.10.2017

Headlines

Former cabinet secretary **Peter Wallace** continued his testimony at the gas plants email trial on Tuesday, where he stated that granting special computer access to an outsider would be "so far beyond the norms" of government protocol, [according to the Star](#). Wallace also said three times that "the only type of organization that doesn't keep any records is a criminal organization." Ontario's former top civil servant continues his testimony Wednesday.

The Globe [takes a detailed look](#) at the partnership between Google subsidiary Sidewalk Labs and Waterfront Toronto, which was announced yesterday afternoon with Premier **Kathleen Wynne** in attendance. Sidewalk will experiment and build-out a neighbourhood of the future in the undeveloped tract of land referred to as Quayside. The high-tech metrics and testing will then be used to help develop other parts of the Port Lands, the vast area of undeveloped Toronto waterfront land that will receive billions in investment over the coming decades.

The Star [reports that the Ministry of Environment ignored warnings](#) from its own engineers about the about public safety in Sarnia's Chemical Valley, according to a leaked report. Wynne in Question Period Tuesday committed to a health study in the region following a multi-publication investigation into the issue, but neither she nor Environment Minister **Chris Ballard** have specified details of how or when that will take place.

In case you missed our stories Tuesday:

- [Auditor General reports Fair Hydro Plan will cost unnecessary billions, obfuscate costs](#)
- [Explainer: A primer on the Auditor General's scathing Fair Hydro Plan report](#)
- [In Brief: High tech, high heels, and high tensions over NAFTA](#)

And don't forget to check out our [Question Period liveblog at 10:30](#).

In other news:

TVO reports on Huron County's [struggles with addiction](#), which includes not just opioid abuse but also higher percentages for heavy drinking than average.

In the ongoing story of intra-party angst in advance of the November policy convention, the *Toronto Sun* reports social conservatives [feel shut out](#) by the party.

Penetanguishene mayor and county warden **Gerry Marshall** will be [the Liberal nominee](#) for Simcoe North, reports the *Orillia Packet-Times*. Meanwhile, a leading candidate for the Progressive Conservative nomination in Cambridge is [defending herself](#) against accusations that she has a limited connection to the area. Calgary dentist **Tanya Khattri** says that her family had to move to Alberta from the Kitchener-Waterloo area in 2012 for business reasons,

but now they have returned to Ontario. She says she is living with her brother in Cambridge and actively looking for a home there.

Charity, the chrome cow public art installation that has divided public opinion in Markham, [will get a temporary reprieve](#). Local councillors voted to move the cow from its current site, but the developer who donated the artwork says she will not agree to do so.
And in the opinion pages:

Christie Blatchford [praises](#) Peter Wallace's testimony in the gas plants email trial, where he cast doubt on the credibility of statements made by senior Liberal staffers. She writes that despite hours of cross-examination Wallace was unflappable and fair, and these virtues stymied even the experienced defence counsel asking him questions.

The Star's **Edward Keenan** reflects on his youth riding transit in Scarborough to argue that the value of the [potential Lawrence East SmartTrack station](#), which is being investigated by the Auditor General, will rely on the fare structure and bus service.

Chris Selley hopes Toronto can [learn to pay attention to the data](#) and build a better city with what it learns from the Sidewalk Labs-Quayside neighbourhood.

Bills

Resuming the debate adjourned on October 4, 2017 on the motion for Second Reading of Bill 148, An Act to amend the Employment Standards Act, 2000 and the Labour Relations Act, 1995 and to make related amendments to other Acts.

Resuming the debate adjourned on October 17, 2017 on the motion for Second Reading of Bill 160, An Act to amend, repeal and enact various Acts in the interest of strengthening quality and accountability for patients.

Committees

9 a.m.

The Standing Committee on Public Accounts will meet for the purpose of report writing. Room No. 151, closed session.

3:45 p.m.

The Standing Committee on Estimates will meet to review the 2017–18 Estimates of the Ministry of Energy. Room No. 151.

Events

8:10 a.m.

Ed Clark, Ontario Premier Kathleen Wynne's Business Advisor, will be giving a speech at the Canadian Club on Wednesday, October 18, where he will provide details on how Ontario is working to bring Amazon's HQ2 to the province. Fairmont Royal York, 100 Front Street West.

8:40 a.m.

Deb Matthews, Deputy Premier and Minister of Advanced Education and Skills Development, **Brad Duguid**, Minister of Economic Development and Growth, and **Reza Moridi**, Minister of Research, Innovation and Science, will be available to the media following a speech to the Canadian Club by **Ed Clark**, Premier's Business Advisor. Fairmont Royal York, 100 Front Street West.

9:30 a.m.

Smoke-Free Ontario modernization report authors to brief provincial media on a tobacco control report. Media studio, Queen's Park Toronto.

8:30 p.m.

Premier Wynne to deliver remarks at the Keren Hayesod UIA International Leadership Reunion Closing Dinner alongside Prime Minister **Justin Trudeau**. Royal Ontario Museum, 100 Queen's Park, Toronto.

Explainer: A primer on the Auditor General's scathing report on the Fair Hydro Plan

17.10.2017

Ok, so what was the Auditor-General's report about today, and why does it matter?

Bonnie Lysyk, the Auditor General, tabled a scathing report on how the government plans to finance its Fair Hydro Plan. She argued that the government was making up its own accounting rules "that serve to obfuscate the impact of their financial decisions" and that they did so "to avoid affecting its fiscal plan" and that this financial structure could cost up to \$4 billion more than necessary.

So how exactly does this financial instrument work?

It's complicated.

The first thing to understand is that there are two main parts to the Fair Hydro Plan's 25-per-cent rate reduction. There's an HST rebate that is slightly more than one-third of the overall savings, and the financing structure that accounts for slightly less than two-thirds. Lysyk doesn't have a problem with the HST rebate portion of the plan.

What is at issue is the financing for the rest of it.

Although ratepayers are now paying less money, hydro costs haven't actually gone down, because they're based on fixed contracts with electricity providers. Instead, the financing pays the gap between the discounted rate and the real price. But that money has to come from somewhere. The government, through the Independent Electricity System Operator (IESO) and the Ontario Power Generation (OPG), is effectively borrowing money backed by the future cash flow of ratepayers — basically, it's like selling future coupon payments from a bond. But this also assumes that rates will increase further in the future to offset present discounts, and pay for the interest costs.

But what about the \$4 billion?!

The \$4 billion is an estimate provided by the Financial Accountability Office (FAO) of Ontario, which was cited in the auditor's report. The FAO estimated the interest costs to eligible ratepayers, as a result of the borrowing to lower their electricity bills, will total about \$21 billion.

The FAO estimated that would be \$4 billion lower if the government were to borrow the money as it normally does.

The government, through the Ontario Financing Authority, could go to the capital markets and raise the debt to fund the hydro reduction as it normally would. Because the government borrows at lower interest rates, doing so would have been cheaper — the FAO says by up to \$4 billion, but that depends on the vagaries of interest rates and other assumptions.

However, the government says it now expects it will be lower than previously thought.

Why is the government making ratepayers pay more? The government borrows money all the time for all sorts of things.

The debt from this financial instrument isn't on the government's books, and that's what the auditor-general takes issue with.

Instead, it created a confusing financial instrument that sits on the books of a newly created entity within OPG called OPG Trust, when borrowing under its own power would have added to

the deficit and broken the Liberals' balanced budget promise. The government also provided capital markets with a guarantee on the debt instruments issued by OPG Trust.

Lysyk argues this was all by design, and that the policy imperative here was to lower hydro rates without affecting budget targets, despite it not being the cheapest or most common sense plan. She argued that by using OPG Trust as the debt vehicle, the government could effectively use looser U.S. accounting standards, thereby creating a slippery slope whereby the government could issue debt without representing it on its balance sheet.

The A-G is basically saying that the government is trying to have its cake and eat it too.

What is the government saying?

For starters, they say that cake is delicious.

More seriously, the government is saying that this is not about trying to hide debt at all, but it is actually being principled when it comes to accounting standards.

Energy Minister **Glenn Thibeault** and Treasury President **Liz Sandals** both argued that it was only right for this debt to live on the OPG Trust books because it's hydro debt. They appeared to hold strong convictions about these accounting principles, even though the alternative costs up to \$4 billion more.

"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 the electricity generator borrows on the market," Sandals said. "Why would we change that?"

Sandals argued that when a dam is built, that lives on the hydro authority's budget too, because it's backed by ratepayers, and a policy decision was made not to mix what is paid by ratepayers and taxpayers.

When a reporter pointed out it would be \$4 billion cheaper, she responded: "But if you're 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 out and do the borrowing for whatever form of electricity generation is. And that is not the history of how we finance electricity generation in the Province of Ontario."

However, it's worth noting that the debt isn't being used to purchase an electricity generating asset; it is being used to finance temporary electricity bill reductions.

And what's the opposition saying?

They're saying the cake is a lie.

NDP MPP **Peter Tabuns** argued the government should have raised its own debt rather than paying premiums to have it done through the OPG Trust, and that it's another reason to throw the Liberals out of office.

PC Energy Critic **Todd Smith** argued it was another reason to distrust the Liberals. However, when asked in a media scrum whether the PCs have a hydro plan, he said yes, but did not give details on what they would do instead.

Neither Tabuns nor Smith would say what their respective parties would do about all of this if they are elected — neither would commit to dismantling OPG Trust or discontinuing the government's borrowing plan.

Has this been done in the past?

The Auditor General said the government's borrowing scheme is unprecedented, as is its approach to the accounting.

However, Sandals said the accounting the government is relying on is nothing new — it is a U.S. standard that is the norm within the electricity sector in Ontario — to which Lysyk's response is, the government is not a utility.

"The application of U.S. accounting does not apply at the government level and the government is not a utility," she said. "What we're wrestling with now, this planned accounting, is a first in Canada."

However, the Lysyk offered a historical example of when the government of Ontario has dealt with electricity costs that stem from a policy decision, but have not yet been billed to ratepayers. She looked to the \$19.4 billion stranded debt left by the breakup of Ontario Hydro in the late 1990s.

She wrote that in the 1999-2000 fiscal year, the government included the debt in its consolidated financial statements, following the proper accounting standards.

"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," she wrote. "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."

What about the emails?

The Auditor General said she requested a review of documentation on the issue, including government emails, when it became clear to her in May that the province was not going to be forthcoming with her about all of the details of the plan.

In her report, Lysyk wrote that her office received all information it requested from all of the organizations involved, except for the Ministry of Energy, which signed a contract with a law firm — with a retainer of \$500,000 — for assistance with compiling emails in response to her request. However, that has not yet been completed.

Thibeault said Lysyk's request covered a broad subject matter, which produced "over a hundred and some thousand" emails, and so the law firm is making sure all of the emails relate specifically to the issue at hand. So far, the ministry has produced about 7,000 emails and will continue to disclose more, he said.

Some of the emails disclosed some of what government officials thought about the plan, including one who wrote that he or she hoped the government would use its own borrowing power, rather than the OPG's — as Lysyk has suggested.

"Hopefully they'll come to the conclusion that it can be financed by the province ... rather than externally, as that would be a lot simpler and cheaper," the official wrote, according to the auditor's report.

The emails also indicated that senior officials were well aware that Lysyk would have a problem with the plan, she said.

"It appeared we were viewed as a risk, a risk that we might speak out against this, a risk that this could affect their financial position," Lysyk said. "I think the risk has been realized."

Auditor General reports Fair Hydro Plan will cost unnecessary billions, obfuscate costs

17.10.2017

Ontario's Auditor General is challenging the provincial government over its plan to lower electricity bills over the next decade through a complex borrowing scheme — throwing its balanced-budgets promise into doubt less than one year before an election.

Auditor **Bonnie Lysyk** released a report on the Fair Hydro Plan Tuesday morning that said it will "unnecessarily cost Ontarians billions of dollars" while its complex structure serves to "obfuscate" the financial impact of the plan.

The centrepiece of the Fair Hydro Plan is a complex scheme designed to allow the borrowing of funds — somewhere in the \$20 billion range, according to estimates — that will be used to allow the government to keep electricity bills artificially low over the next decade, without the debt showing on the province's books. The debt is to be paid back by ratepayers over the following two decades.

It involves a partnership with Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO) to create a regulatory / investment asset ultimately controlled by a new body, within OPG, called OPG Trust.

"However, the government did not properly account for this debt impact from the electricity rate reduction in its 2017/18 budget and is not planning to account for it properly in its future consolidated financial statements," Lysyk wrote. "In essence, the government is making up its own accounting rules."

Lysyk wrote that, according to proper accounting standards, the debt should be accounted for in the government's annual budgets, starting this year.

"The government knew there was a high risk that it would receive a 'qualified' audit opinion on the Province's consolidated financial statements as a result of using legislation to create a regulatory asset, but it accepted this risk in order to avoid showing a deficit and an increase in net debt in its budgets and consolidated financial statements," she wrote.

"Accordingly, the 2017/18 budget does not, but should, include the impact for 16% of the costs of the Policy Decision to reduce electricity rates by 25%. The 16% reduction is estimated to cost an average of \$2.5 billion per year (over 10.5 years) through to 2027."

Lysyk's report is relatively scathing for an auditor who, even in past conflicts with the government, has tended to use more measured language.

"When governments pass legislation to make their own accounting rules that serve to obfuscate the impact of their financial decisions, their financial statements become unreliable," she wrote.

"When organizational structures and transactions are designed to remove transparency and accountability, and unnecessarily cost Ontarians billions of dollars, the responsibility of an Auditor General is to appraise the Legislature and the public in accordance with the Auditor General's mandate. The situation just described will come to pass if the complex accounting/financing design of the Ontario Fair Hydro Act, 2017 (Fair Hydro Act) is implemented."

Lysyk wrote that the total borrowings to be repaid by ratepayers will be an estimated \$39.4 billion, with \$21 billion of it accumulated interest, an estimate based on a Financial Accountability Officer (FAO) report released last spring.

Based on the FAO's estimates, Lysyk wrote that the scheme will cost Ontarians \$4 billion more in interest payments than if the province had borrowed the funds directly.

"This cost stems from the fact that OPG/OPG Trust must pay a higher interest rate on borrowings than the Province would if it were to borrow in the normal manner through the Ontario Financing Authority," Lysyk wrote, adding that senior government officials were aware of that when the plan was created.

However, she also observed that the actual extra cost — the "interest rate spread between OPG/ OPG Trust debt and Provincial debt" — "will depend on market conditions at the time of the debt issuance."

The FAO had warned in its spring report that if the scheme does not meet with public sector accounting standards, the borrowed funds should count toward the province's net debt, suggesting that MPPs consult with the Auditor General on the issue.

Energy Minister **Glenn Thibeault** and Treasury Board President **Liz Sandals** responded to the Auditor General's report, saying she disagreed with her conclusions, particularly the assertion that "unnecessarily" complex scheme was created as it was in order to keep the debt off the government books.

"There are no fast ones being pulled at all," Thibeault said.

The government also argues the scheme does meet public sector accounting standards and that the borrowing costs will be much lower than those cited in the report.

The government also disagreed with Lysyk's assertion that the plan was structured with the motive of avoiding budget deficits.

"Despite the report's assertion that the government's intention was to avoid recording a deficit in the fiscal plan, the decisions made to implement [the refinancing plan] most effectively achieves the goals of the refinancing program and ensures that the deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base," the government statement says. "The accounting for this transaction will reflect the substance of this transaction."

But Lysyk cited senior government officials and staff who expressed doubts about the merits of the plan. They believed the elaborate financing scheme would result in higher costs, and that both the Canadian Public Sector Accounting Standards and the Auditor General would be unlikely to allow the financing scheme. "Hopefully [the government] will come to the conclusion that [the Fair Hydro Plan] can be financed by the province ... rather than externally, as that would be a lot simpler and cheaper" one senior official wrote in an email.

The Auditor General's conclusions were not unexpected. Last spring, she testified at the committee studying the legislation that the scheme did not meet accepted public sector reporting standards, and warned it set a dangerous precedent.

"Under this Bill, the government's policy decision to borrow money to subsidize electricity bills will not affect the Province's net debt or annual deficit. This legislated accounting is not in accordance with Canadian public-sector accounting standards. These standards are there to ensure that the financial reporting of government policy decisions reflects common sense: borrowings are debt; unearned revenue is not an asset today; and when your expenses exceed your revenues, you incur a deficit. Such common sense and the principle of substance over form should prevail in the financial reporting of government policy decisions."