ENERGY media calls

From: "Berry, James (ENERGY)" <james.berry5@ontario.ca>
To: "@OPO-Media Relations and Issues Management" <opo-mediarelationsandissuesmgmt@msgov.gov.on.ca>
Cc: "Nekolaichuk, Colin (ENERGY)" <colin.nekolaichuk@ontario.ca>, "Den Heijer, Kevin (ENERGY)" <kevin.denheijer@ontario.ca>
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Hi all,

One inquiry today into the Minister's Office and it came from Tom Blackwell at the Post. He's using it for a sidebar piece to an article on today's sentencing.

We also reached out to the Toronto Sun's Antonella Artuso to see if she had an embargoed version of the Fraser Institute Report being released tomorrow morning. She mentioned they won't be reporting on it in tomorrow's print edition. For your reference, the report is on Understanding Changes in Ontario's Electricity Markets and Their Effects, spotlighting the provincial government's policy decisions that have increased hydro prices for residents and businesses.

Finally, IESO shared responses with the Globe & Mail's Matt McClearn on his ongoing look at Fair Hydro Plan accounting.

Let us know if you have any questions.

Thank you,

James

Minister's Office: 1 inquiry

Topic : Electricity policy decisions

Reporter & Outlet : Tom Blackwell, National Post

Response Type : Minister's spokesperson

Reporter's Questions:

I'm doing a sidebar to the David Livingston story, detailing the various instances where the Auditor General or FAO has said Liberal hydro policies have wasted large amounts of money. My list includes:

- ? gas-plant cancellations, $1 billion (AG)
- ? Fair Hydro Plan, $4 billion more in borrowing costs because done through OPG (AG)
- ? Fair Hydro Plan, $1.3 billion that should have been added to deficit but was obscured by improper accounting (AG)
- ? Sale of Hydro One, $1.8 billion more than cost of raising same amount through actual borrowing on markets (FAO)
- ? Overall hydro policy, unnecessarily added $37 billion to costs from 2006-2014 (AG)

The opposition says this shows a long history putting political expediency over good management of the hydro system, at a huge cost. Could you offer a comment on that allegation?

Response:

We remain focused on supporting care, creating opportunity and ensuring affordability for Ontario families. And that's exactly why we launched our Fair Hydro Plan to reduce rates for all residential consumers by 25 per cent on average. That also includes a reduction for as many as half a million small businesses and farms. These reduced rates will be held to the rate of inflation for four years, ensuring affordability over the medium term. Our Long-Term Energy Plan outlines how we will make electricity affordable over the long run. On the other hand, the Conservatives have absolutely no plan to lower electricity bills for Ontario families and businesses.

- gas-plant cancellations, $1 billion (AG)

Natural gas-fired generators play an important role in Ontario's electricity supply mix, helping to meet periods of peak demand, improving reliability, and supporting the integration of renewable generation. We've worked with the province's Independent Electricity System Operator and other industry partners to improve siting for large energy infrastructure projects, ensuring decisions are sound from the beginning. Updates focus on bringing communities to the table, linking local and provincial planning and reinforcing the planning/siting continuum.

- Fair Hydro Plan, $4 billion more in borrowing costs because done through OPG (AG)

The Fair Hydro Plan keeps the cost of borrowing within the rate-base, not the tax-base, because that's the logical thing to do. Electricity financing should remain within the electricity system. When Guelph Hydro borrows money to expand its distribution network, it stays within the rate base. When OPG borrows to build a new hydroelectric dam in Northern Ontario, that also stays within the rate base. And when Bruce Power extends the life of one of its nuclear reactors, it stays within the rate base. These costs are spread out over a longer period of time – 30, 50, or even 90 years – because it better reflects the life of the asset.

- Fair Hydro Plan, $1.3 billion that should have been added to deficit but was obscured by improper accounting (AG)

The concerns referred to by the AGO result from a difference of professional judgement. Third-party experts from firms such as KPMG, E&Y, and Deloitte were consulted by government and its agencies on the structure of the accounting. Through these consultations we considered a range of implementation options, and ensured due diligence was completed.

The accounting practices in this Plan are well-established, and well-recognized within the industry. In fact, six of eight other independent system operators – AESO in Alberta, ISO in New England, NYISO in New York, MISO in Minnesota, PJM in the Midwest and Eastern Seaboard, and ERCOT in Texas – use a rate regulated accounting structure. And it's a common practice for companies like Toronto Hydro, Hydro One, and Fortis.
This was a policy choice we made to ensure that we continue to have a clean, reliable affordable electricity system for the ratepayers of today, and the ratepayers of tomorrow. That's exactly what the Fair Hydro Plan has done, and what it will continue to do into the future.

- Sale of Hydro One, $1.8 billion more than cost of raising same amount through actual borrowing on markets (FAO)

Last year we successfully achieved our target of $9 billion generated, with $4 billion marked for infrastructure investments and $5 billion going towards paying down debt. We broadened ownership to improve long-term performance of the utility, while unlocking the value in this asset to enable investments in transit and other major infrastructure projects that will help grow Ontario's economy, and benefit future generations.

Our goal was to get the best possible value for the people of Ontario and to invest billions in transit, transportation and infrastructure through the Trillium Trust. That includes GO Regional Express, LRT projects in multiple communities, and the Ring of Fire in the North, among others.

In moving forward with the broadening of Hydro One's ownership, one of the Province's priorities *was improved corporate performance, customer service, and increased operating efficiencies. The FAO's report confirms that as a publicly traded company, Hydro One is in a position to achieve efficiencies that will create savings for Ontario's ratepayers and a boost to the Province's revenues.*

- Overall hydro policy, unnecessarily added $37 billion to costs from 2006-2014 (AG)

Governing is about choices. We made a choice of a clean, modern and reliable electricity system. Narrowly focused value-for-money audits always show it would have been cheaper to burn dirty coal. What the auditor didn't account for in her report of our investments in the system includes $4.4 billion in health care and environmental costs that saw the equivalent of 7 million cars taken off the road.

Agencies: 1 inquiry

Agency: IESO

Topic : Fair Hydro Plan accounting

Reporter & Outlet : Matt McClearn, Globe & Mail

Response Type : Agency spokesperson

Matt,

Please find below responses from Kim Marshall to some of your recent questions that you had provided the IESO. There is one remaining question that you had regarding the services provided by KPMG, which we will respond to shortly. Terry

1. When did the IESO let the Auditor General know about the changes to its accounting practices in 2017?

The IESO Board of Directors approved changes to its accounting policies on March 15, 2017, and approved its audited financial statements on Wednesday, March 22. The IESO reached out to the Auditor General's office the following Monday, March 27 and again on April 4, to inform them of the changes in accounting policies. On April 20, the Auditor General's office requested a meeting with the IESO and KPMG to understand and discuss these changes in further detail. That meeting took place on April 25, 2017.

The Board subsequently met with the AG and her staff in June and July. Throughout this process the Board and the Audit Committee of the Board, IESO management, and KPMG have spent a considerable amount of time reviewing the decision and the AG's concerns. While the IESO and the AG have disagreed around the decision to change our accounting practices, in no way has this affected our commitment to cooperate fully with the AG in any of her interactions with the IESO including the recent special audit. In all instances the IESO has fully cooperated with the Auditor General and her office.

2. Was the IESO asked to change its accounting policies by the government?

The IESO reviews its accounting policies from time-to-time to ensure our financial reporting best represents our operations and the substance of the accounts we oversee. In early 2017, an internal review of our accounting policies was initiated after a conversation with the Office of the Provincial Controller about the IESO's financial reporting of market accounts but the IESO was not directed to change its accounting policy by government.

The IESO worked with KPMG on the review and determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in the IESO financial statements. By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable. Draft white papers on the reporting options from KPMG were provided to the Provincial Controller on February 21, 2017.

Ultimately, the IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to over $17 billion last year. The IESO also determined that recognizing regulatory assets would provide more transparency into the substance of certain accounts that we oversee.

3. For publicly-traded companies, there are certification requirements in Canada. For example, the CEO and CFO certify that the issuer's financial statements contain no misrepresentation, that the financial statements fairly present the financial condition of the issuer, and so on. Do those requirements apply to the IESO's financial statements? If not, what responsibilities are attached to signing off on the books of a government agency?

The IESO is required to have its financial statements audited on a yearly basis as outlined in the *Electricity Act, 1998*. When IESO engages its auditor as required under the Act, it signs a management representation letter meeting accounting audit standards. This letter identifies that management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The IESO is also required to keep proper books of account and accounting records, as outlined in section 96 of the *Corporations Act*.

As a best practice and to increase transparency for its financial statement users, the IESO also includes a Management Report in its financial statements that is signed by the CEO and CFO. This letter summarizes the statements made in the management representation letter and identifies the independent third party auditor. This can be found on page 8 of our most recent Annual Report. The Board Chair and the Chair of the Audit Committee sign the IESO financial statements.

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James Berry
Director of Communications
Office of the Hon. Glenn Thibeault | Ministry of Energy
O: 416.327.3551 | C: 437.992.3824 | E: james.berry5@ontario.ca