Ontario

FACT SHEET

Ministry of Energy

Auditor General's Special Report on the Ontario Fair Hydro Plan

October XX, XXXX

The special report from the Office of the Auditor General (OAG) focuses on the accounting design used to facilitate the Ontario Fair Hydro Plan (OFHP), which is delivering the single-largest reduction in electricity rates in the province's history by lowering electricity bills by an average of 25% for all residential consumers, as well as up to half a million small businesses and farms.

Refinancing the Global Adjustment (GA)

To relieve the current burden on ratepayers and share costs more fairly, OFHP is refinancing a portion of the GA, which pays for the majority of the recent investments in the electricity system.

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 assets that have been built.

- In developing the OFHP, the government considered a range of implementation options and consulted with legal, accounting and financial experts to provide advice and ensure appropriate due diligence was completed.
- The GA refinancing design 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.

Ontario Fair Hydro Plan Accounting

- The 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.
- When the Independent Electricity System Operator (IESO) began working with the provincial government on the development of the OFHP, the IESO consulted United States Generally Accepted Accounting Principles (US GAAP), which provides guidance on rate regulated accounting.
- The IESO has since adopted aspects of the US GAAP accounting framework allowing the IESO to recognize a regulatory asset, bringing it in line with virtually all other independent system operators across North America.
- Rate regulated accounting is a standard used by six of seven other independent system operators in North America.
- The adoption of rate regulated accounting better reflects the economic substance of the IESO's operations and enhances the relevance, transparency and accountability of its financial reporting.

- Public Sector Accounting Standards (PSAS), the accounting standards that Ontario follows, are silent on, and do not prohibit, the use of rate-regulated accounting.

- Standard accounting practice dictates that, in the absence of a clear position on an issue, an entity is entitled to refer to other accounting standards. In this case, the IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations.

- IESO's use of rate-regulated accounting has been vetted and considered appropriate by its external auditors, KPMG and Deloitte.

Ontario Power Generation as Financial Services Manager

- The Ontario Fair Hydro Plan Act, 2017 (OFHPA) appoints Ontario Power Generation (OPG) as the Financial Services Manager (FSM). OPG will develop a financing plan which sets out the funding obligations and amounts related to the financing of the deferred GA amounts.

- OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

    - OPG currently manages an $18 billion nuclear fund and can use its infrastructure and expertise in this field to help administer the GA financing.

    - As an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

Further, the structure of the OFHP incentivizes OPG, in its role as Financial Services Manager, to keep the cost of borrowing to a minimum by <need Ministry Q&A> .

FAO Report on the Costs of the Ontario Fair Hydro Plan

- The OAG references the Financial Accountability Office's report on the Fair Hydro Plan in respect to the cost of refinancing the global adjustment.

  These figures were estimates made by the FAO based on a number of variables, including the cost of borrowing. The report itself concludes by saying "the FAO's estimates are subject to many assumptions and uncertainties… Fiscal impact may differ significantly from the FAO's estimates."

- OPG is now beginning the process of raising funds to finance these deferred costs, and while total borrowing costs will not be known until the transaction is complete, accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the OAG.

- Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since FAO released its report in May 2017 and OPG's and its financing entity's borrowing costs are now forecast to be substantially lower than original estimates.

- As a result, current government estimates forecast that the peak debt over the 30-year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

- The FAO's projection of electricity costs reflects a point-in-time estimate that demonstrates how we can ensure greater fairness and affordability in the short and medium term.

- The government will release the Long-Term Energy Plan in the near future, which will lay out projected electricity prices over the long-term.