Debt Retirement Charge

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Hi Robert – Hope all is well.

I'm doing some digging into the debt retirement charge in connection with the accounting for the Fair Hydro Plan and was wondering what your recollection of this issue was and if we can spend 20 minutes chatting sometime this week.

There is an excerpt from the 2000 AG report that I've included below that I'm most interested in.

Thanks,

Cindy

Excerpt from *Auditor General of Ontario 2000 Annual Report*

"In last year's Annual Report, I indicated that the government intended to offset Ontario Hydro's stranded debt with a deferred charge on OEFC's statement of financial position in accordance with accounting standards for rate-regulated utilities. I further indicated at that time that the details of this accounting had not been finalized. In this year's audit, we found that the Ministry of Finance had not adequately supported recognition of the deferred charge as an asset. Accordingly, we found it necessary to conduct extensive accounting research. Based on a full assessment of the proposed accounting, an exhaustive review of Canadian and U.S. accounting standards, discussions with ministry staff and external advice, we concluded that the deferred charge could not be recorded as an asset.

The deferred charge approach would have excluded the stranded debt entirely from the measure of the government's net debt. It would have also excluded the electricity sector's annual operating income or loss from the measure of the government's annual surplus or deficit. Failing to recognize an existing liability, particularly one of the magnitude of OEFC's stranded debt, as well as the ongoing income or loss from a significant government sector because of the expectation that this debt would eventually be discharged by means of future dedicated revenue streams would have set an unacceptable precedent for government accounting. It would also have represented a departure from one of the central tenets of generally accepted accounting principles—that revenue not be recognized until it is earned.

Our research also indicated that certain provisions for loss deferral allowed only for rate-regulated utilities were not applicable to Ontario's situation. Work on resolving this complex issue was not finalized until late October. The final financial statements included the net assets/ liabilities and operating results of the four electricity entities owned by the province, and we concluded that this accounting resulted in a fair presentation of the province's financial position and operating results."

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