Follow up questions from Globe & Mail Reporter – Received May 1, 2018

1. Where does the borrowing of the Fair Hydro Trust appear on the Government of Ontario's Consolidated Statement of Financial Position?
2. How does the borrowing of the Fair Hydro Trust affect the Province of Ontario's reported net debt?
3. How does OPG's borrowing related to the Fair Hydro Trust appear on the Government of Ontario's Consolidated Statement of Financial Position?
4. How does OPG's borrowing related to the Fair Hydro Plan affect the Province of Ontario's reported net debt?
5. The Auditor General has said that the Province of Ontario provides capital markets with a guarantee on debt instruments issued by the Fair Hydro Trust. Please provide a copy of that guarantee.
6. When did the government begin using special purpose trusts to issue debt? Please provide a list of all special purpose trusts controlled by the government, the date they were created, and how much debt they had outstanding at Mar. 31, 2018.
7. When you refer to "gross debt," what are you referring to? Where is that item reported on the Public Accounts?"

1. Where does the borrowing of the Fair Hydro Trust appear on the Government of Ontario's Consolidated Statement of Financial Position? 3. How does OPG's borrowing related to the Fair Hydro Trust appear on the Government of Ontario's Consolidated Statement of Financial Position?	As you noted in your article, the borrowing for the Global Adjustment Refinancing aspect of the Fair Hydro Plan comes from more than one source. There is debt issued by the Province, Ontario Power Generation (OPG) and the Fair Hydro Trust. Note that the Fair Hydro Trust is consolidated in the financial statements of OPG. The borrowing for the Global Adjustment Refinancing aspect of the Fair Hydro Plan commenced in July 2017, and will be recorded in the consolidated financial statements of the Province for the year ended March 31, 2018. There was no debt related to the Global Adjustment Refinancing aspect of the Fair Hydro Plan as of the end of the last fiscal year – March 31, 2017. The comments below relate to the plan for disclosure in the Province's consolidated financial statements for the year-ended March 31, 2018. Those financial statements are in the process of being prepared now, and the Auditor General generally issues her opinion on those financial statements in mid-August (her 2017 opinion was dated August 18, 2017). The borrowing that the Province issues directly, which is then invested in OPG, will be included in the line item labelled "Debt" within the Liabilities section of the Statement of Consolidated Financial Position. The debt that OPG and the Fair Hydro Trust issue will be included in the line item labelled "Investment in Government Business Enterprises", within the Financial Assets Section of the Consolidated Statement of Financial Position. The details of the "Investment in Government Business Enterprises" line is provided in Schedule 9 to the consolidated financial statements. Schedule 9 discloses the detailed balances of each asset and liability category for each Government Business Enterprise. The debt of OPG and the Fair Hydro Trust related

	to the Global Adjustment Refinancing aspect of the Fair Hydro Plan will be included in the line labelled Long-Term Debt, within the Liabilities section, and under the column for OPG. This accounting is consistent with the Public Sector Accounting Board (PSAB) standards for Government Business Enterprises. The debt of those entities is presented within the Investment in Government Business Enterprises line. As of March 31, 2017, the combined Long-Term Debt of Ontario's Government Business Enterprises was $16.7 billion. The impact of adding the Long-Term consolidated debt of OPG and the Fair Hydro Trust as of March 31, 2018 will be an increase of approximately $900 million. Additional details with respect to the assets and liabilities for the Fair Hydro Trust will be presented in Schedule 9 to the March 31, 2018 consolidated financial statements, ensuring that the activities of the Fair Hydro Trust are fully transparent to the readers of the consolidated financial statements. In addition, the audited financial statements of both OPG and the Fair Hydro Trust will be included in Volume 2 of the 2018 Public Accounts.
2. How does the borrowing of the Fair Hydro Trust affect the Province of Ontario's reported net debt? 4. How does OPG's borrowing related to the Fair Hydro Plan affect the Province of Ontario's reported net debt?	Public Sector Accounting Standards (PSAS) discuss the computation and meaning of net debt as follows in Section 1100: ***Net debt*** *is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations.* <u>***Net debt*** *provides a measure of the future revenues required to pay for past transactions and events.*</u> *The extent of a government's* ***net debt*** *and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.* The debt issued by OPG and the Fair Hydro Trust for the Global Adjustment Refinancing aspect of the Fair Hydro Plan will not increase net debt of the Province. As explained in the response to question 1 above, the debt of OPG and the Fair Hydro Trust is recorded as part of the Province's investment in OPG and that investment is included in the line item labelled Investment in Government Business Enterprise on the Consolidated Statement of Financial Position.

	This outcome is consistent with the meaning of net debt. As PSAS notes, "***Net debt*** *provides a measure of the future revenues required to pay for past transactions and events.*" Future revenues of government (e.g. taxation revenue) will not be used to pay for the reduction in electricity prices provided to ratepayers as a result of the Global Adjustment Refinancing. The Fair Hydro Plan provides for collection from the ratepayers of these reductions, including the cost of borrowing.
5. The Auditor General has said that the Province of Ontario provides capital markets with a guarantee on debt instruments issued by the Fair Hydro Trust. Please provide a copy of that guarantee.	Note 19 of OPG's consolidated financial statements (available on OPG's website at: https://www.opg.com/about/finance/Documents/20180308CombinedNewsReleaseMDAOPGQ42017FINAL.pdf) includes the following disclosure of the guarantee provided by the Province: *The Province has provided a limited guarantee to specified creditors of the Fair Hydro Trust. The limited guarantee would be triggered in the event that the Trust's ability to receive amounts in respect of its Investment Interest to pay for certain funding obligations is adversely affected due to one or more of the following: the Province changes the Fair Hydro Act or any other legislation or regulation; a significant change in Ontario's electricity market undertaken by the Province; or a court declares that the Act is invalid or unconstitutional.* Disclosure of the guarantee will also be included in the notes to the consolidated financial statements of the Province for the year-ended March 31, 2018, which will be released as part of the 2018 Public Accounts.
6. When did the government begin using special purpose trusts to issue debt? Please provide a list of all special purpose trusts controlled by the government, the date they were created, and how much debt they had outstanding at Mar. 31, 2018.	The consolidated financial statements of the government of Ontario record debt issued by a number of different controlled and consolidated entities. The form of the entity that issues the debt, whether it is a corporation, a trust or some other legal form is not relevant to the accounting for the debt on the financial statements of the Province. The accounting in the consolidated financial statements of the Province is determined based the assessment of whether the Province controls the entity and the classification of the organization under PSAS, as PSAS requires specific accounting for certain types of entities. The issuer of the debt depends on the nature of the debt and what source of income will be used to service the interest and debt. The debt recorded on the consolidated financial statements of the Province includes: • Debt issued directly by the Province and for the Ontario Electricity Financial Corporation. At March 31, 2017, the outstanding balance of this debt was $333 billion (see Note 2 to the 2016-17 consolidated financial statements)

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	• Debt issued by broader public sector organizations, such as hospitals. At March 31, 2017, the outstanding balance of debt issued by broader public sector organizations was $5 billion (see Note 4 to the 2016-17 consolidated financial statements) • Debt relating to Alternative Financing and Procurement structures (AFPs), which can be for broader public sector organizations and other controlled government organizations. At March 31, 2017, the outstanding AFP debt was $8.7 billion (see Note 4 to 2016-17 consolidated financial statements) • Debt of the government business enterprises (the accounting for which is discussed in the response to questions 1 and 3). At March 31, 2017, the debt of the government business enterprises was $16.7 billion. See schedule 9 of the 2016-17 consolidated financial statements. Link to 2016-17 consolidated financial statements of the Province -- http://www.ontla.on.ca/library/repository/ser/15767/2016-2017/Consolidatedfinancialstatements.pdf
7. When you refer to “gross debt,” what are you referring to? Where is that item reported on the Public Accounts?”	The term “gross debt” was used to differentiate it from “net debt”. The debt that the Province issues directly (as contrasted with debt issued by OPG or the Fair Hydro Trust) is recorded in the line item labelled “Debt” within the Liabilities section of the Statement of Consolidated Financial Position.