RE: Details for new Fair Hydro HBN

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
Cc: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Fri, 21 Jul 2017 15:37:03 -0400

Thanks. It was the highlighted section below that confused me.

From: Hosick, Sarah (TBS)
Sent: July-21-17 3:36 PM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: RE: Details for new Fair Hydro HBN

They would like a new note on FHP on the accounting.
Comms just provided the previous GA smoothing one for reference (sorry for the confusion).

From: Petsche, Nadine (TBS)
Sent: July 21, 2017 3:33 PM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS)
Subject: RE: Details for new Fair Hydro HBN

Sarah,
It was a separate FHP HBN on accounting that was requested. Is that still the case, or is it us a few lines for the GA Smoothing note? Please confirm. n

---

From: Hosick, Sarah (TBS)
Sent: July-21-17 3:25 PM
To: Petsche, Nadine (TBS)
Cc: Donaldson, Mark (MOHLTC)
Subject: FW: Details for new Fair Hydro HBN

See below – can you incorporate into the Fair Hydro HBN?

From: Bigley, Jane (TBS)
Sent: July 21, 2017 1:37 PM
To: Hosick, Sarah (TBS)
Cc: Sullivan, Bryant (TBS); Doose, Ann (TBS)
Subject: Details for new Fair Hydro HBN

Hello Sarah,

Sebastian in the MO has sent details explaining what he is wanting in a new Fair Hydro note.

Attached is a current Global Adjustment note for your reference.

He needs a note supporting our accounting staff's choice.

The purpose for this note is to have lines available, in a scenario where the Auditor General starts coming after the way we are accounting for the Fair Hydro Plan (ie. the use of a regulator asset).

Hope this helps.

Jane

(1) **A line speaking to our values, and how they informed our accounting choice.**
There is an underlying reason why we believe US GAAP FAS 71 is the appropriate accounting treatment. While I know the argument theoretically relates to if PS2120.02 applies or not, I think there should be a line speaking to why our accountants believe this is the most accurate way to present our financials.

- Eg. Our government committed to openness and transparency. As a part of that ongoing commitment, we believe that Ontario's Books need to provide the public with accurate and timely information. Instead of using an accounting treatment that under and over states our financials for years, we believe in using a treatment that provides Ontarians with an accurate financial position as of today.

(2) **External Support for our treatment.**
Let's get some lines speaking to external consultants who have supported our decision, rating agencies, as well as other jurisdictions with similar practices

- Eg. KPMG has confirmed that 18 other jurisdictions in North America utilize similar accounting practices in the their electricity system, offering strong legal and financial frameworks to guide Ontario's own proposal. Rating Agencies like DBRS have agreed with our accounting treatment, saying that they view "the proposed changes as credit neutral", and that they will "treat it as self-supported and exclude it from the calculation of tax-supported debt"
- A list of those 18 jurisdictions wouldn't be a bad thing
- Any other supportive quotes from the external consultant reports would be great to flag, or other supportive quotes from our rating agencies, press, FAO, etc.

(3) **Contextualizing Example.**
Accounting is difficult to grasp sometimes. I really liked Tricia O'Malley's example on pension accounting of two people owning a rental property, and not reflecting the proportional values in their net worth – that drove the accounting idea home for reporters, and was carried in a number of articles. I'd like something similar, if possible. If folks can't think of an easy way to convey this, I can live without this piece.

- (this example may be inaccurate - I lack the depth required to produce a good example). Eg. When CompanyABC applies for a rate increase to the OEB, there are allowable costs that are allowed to be considered in the application. Think of it similar to an account receivable – if Billy promises to pay Sally in a month for a bushel of apples, it would be silly for Sally not to book that as money she will receive. Its similar with Ratepayers and the CompanyABC. If the OEB allows CompanyABC to consider investments they've made in the grid when assessing rate increases, then any investments in the grid are like future accounts receivable from ratepayers.

(4) **An "If Pressed" section on the prior AG ruling.**
The AG has already publically compared our use of regulator assets to a former AG's ruling in 2000. I'll send you the transcript from committee – I want someone to confirm what she was referring to, and have an 'if pressed' response stating why it is not a fair comparison. From my research, I am currently of the believe that this relates to the former AG's ruling when we broke up Ontario Hydro in 1999, and assigned debt based on the assets linked to each new hydro company, however, could not assign the stranded debt. In addition, if we have any external consulting opinions/rating agency/press quotes on this supporting our stance, that would be very valuable to me.

- Eg. The AG has compared a ruling on stranded debt in 2000 to what we are doing with rate-regulated accounting. Unlike stranded debt, the regulatory assets created under rate-regulated accounting are based on the understanding that future OEB rate increases can be linked to investments today. Because there is a link between investment today and increased revenue to recover that investment tomorrow, we believe that our accounting treatment provides increased transparency and accuracy for Ontario’s finances.