Speaking Notes
Deputy Minister Angus to Auditor General
Re: Fair Hydro Plan

We appreciate the efforts taken by your office to try to understand the proposed Fair Hydro Plan and its integrated components.

It was helpful to have your comments posted on your website for us to review, as stated in your own words.

As we reviewed your comments, and with equal interest, assessed the questions and responses that followed your statement last week, it became evident to us that the proposed legislation and Province's intended accounting for the Fair Hydro Plan is not clearly understood.

In the interest of ensuring that the public and Legislature is not unintentionally mislead by statements coming from a respected Legislative Officer like yourself, I welcome this opportunity for an open dialogue and sharing of different perspectives. My hope is that we will land on a common understanding of the legislation and our planned accounting under public sector accounting standards.

The concept of rate regulated accounting, as you know, addresses the reality of rate regulated entities (<u>like OPG, H1 and the IESO</u>) in which costs incurred in the past will be recovered through future rates. The GA costs incurred by the IESO are <u>currently recoverable through legislation</u>, <u>like some of OPG's costs under O. Reg. 53/05</u>. As you know, OPG's results will be consolidated under IFRS starting with this year's Public Accounts, that those rate regulated costs established through legislation will continue to be reported as rate regulated assets on OPG's books, and therefore on the Province's consolidated financial statements.

With regards to the relevance of USGAAP, when it comes to rate regulated accounting, both OPG's and H1's financial results when reported on an IFRS basis will continue to leverage US GAAP as the basis for reporting rate regulated accounting. To suggest that US GAAP is not an appropriate basis or relevant basis for reporting for the Province's books which are prepared on PSAS would be a misleading statement.

While I am not an accountant, I have been educated on the need to apply professional judgement to ensure that the economic substance of an entity's activities is reported fairly, <u>and on the appropriateness of applying a GAAP hierarchy</u> where specific accounting standards do not address a specific transaction. Based on my <u>own</u> conversations with management of the IESO, I am confident that they are exercising good judgment and good faith in ensuring that their accounting policies best reflect the nature of their activities and financial performance.

My colleagues and I were confused by your references to legislated accounting. We have had some concerns in the past with references to legislated accounting where the suggestion was made that we were not following PSAS in our Public Accounts. As you know, we <u>only ever</u> applied legislated accounting for our consolidated financial statements in the case of the Investing in Ontario Act which was compliant with PSAS, and last year when the government legislated accounting for our pensions.

We would like to better understand what you meant by your references to legislated accounting?

Your comments also refer to 'unearned revenue' related to 'energy not yet consumed'. The confusion around those remarks is because, as you know, a rate regulated asset <u>does not reflect receivable or unearned revenue</u>, but rather deferred charges that will be recovered through future rates. Based on the questions that followed your remarks last week, it is easy to see that the legislature and public might be very confused by the Province's intended accounting treatment.

As we've stated before, <u>a final accounting analysis cannot be completed until the detailed regulations and commercial agreements are done</u> and can be considered. Until then, based on preliminary analysis done by both the IESO and OPG, it is our expectation that the IESO will be accounting for the deferred costs as rate regulated assets and that OPG will reflect the intangible assets on its books under IFRS. There will not be any unearned revenue reported on the Province's books under the anticipated accounting.

Accounting aside, we were even more concerned with your comments in response to questions that the incremental debt incurred under the Fair Hydro Plan would have to be paid by the taxpayers. If this is your understanding of the FHP, I think it is important that we clarify this as soon as possible. From the Province's perspective, the legislation is intended to allow for a portion of IESO's incurred costs that are already legally recoverable through rates to be deferred and recovered through rates over a future time period. There is no intention for the debt incurred under the structure to be funded by the taxpayer. Perhaps you can help us to understand your interpretation of the proposed legislation?

Regarding the sharing of details related to the FHP by the government, it is my understanding that our analysis of the Affordability Fund has been provided and is currently being assessed by your Office. You have been provided with the Cabinet submission related to the Fair Hydro Plan, and you had a meeting on April 19th with a number of Officials to provide additional context on the proposal. Work continues on the details related to implementation, including the drafting of regulations and commercial agreements. Our accounting analysis will be informed by additional details as they come available, and will be provided to you once it is done.

Prepared by: **OPCD**
Date Prepared: **May 29, 2017**