John Bozzo

From: John Bozzo
Sent: October 17, 2017 12:11 PM
To: ##Clippings_Distribution_List
Subject: AG blasts government's hydro plan
Attachments: IndAudReport_en.pdf; newsrelease_2017fairhydro.pdf; FairHydroPlan_en.pdf

Attached is the AG's report regarding the Fair Hydro Plan, along with the AG's news release and QP Briefing's coverage (full story below).

Public Affairs will be reviewing the report and will work with staff to prepare reactive coms materials as needed.
Ontario's Auditor General is challenging the provincial government over its plan to lower electricity bills over the next decade through a complex borrowing scheme — throwing its balanced-budgets promise into doubt less than one year before an election.

Auditor **Bonnie Lysyk** released a report on the Fair Hydro Plan Tuesday morning that said it will "unnecessarily cost Ontarians billions of dollars" while its complex structure serves to "obfuscate" the financial impact of the plan.

The centrepiece of the Fair Hydro Plan is a complex scheme designed to allow the borrowing of funds — somewhere in the $20 billion range, according to estimates — that will be used to allow the government to keep electricity bills artificially low over the next decade, without the debt showing on the province's books. The debt is to be paid back by ratepayers over the following two decades.

It involves a partnership with Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO) to create a regulatory / investment asset ultimately controlled by a new body, within OPG, called OPG Trust.

"However, the government did not properly account for this debt impact from the electricity rate reduction in its 2017/18 budget and is not planning to account for it properly in its future consolidated financial statements," Lysyk wrote. "In essence, the government is making up its own accounting rules."

Lysyk wrote that, according to proper accounting standards, the debt should be accounted for in the government's annual budgets, starting this year.

"The government knew there was a high risk that it would receive a 'qualified' audit opinion on the Province's consolidated financial statements as a result of using legislation to create a regulatory asset, but it accepted this risk in order to avoid showing a deficit and an increase in net debt in its budgets and consolidated financial statements," she wrote.

"Accordingly, the 2017/18 budget does not, but should, include the impact for 16% of the costs of the Policy Decision to reduce electricity rates by 25%. The 16% reduction is estimated to cost an average of $2.5 billion per year (over 10.5 years) through to 2027."

Lysyk's report is relatively scathing for an auditor who, even in past conflicts with the government, has tended to use more measured language.

"When governments pass legislation to make their own accounting rules that serve to obfuscate the impact of their financial decisions, their financial statements become unreliable," she wrote.

"When organizational structures and transactions are designed to remove transparency and accountability, and unnecessarily cost Ontarians billions of dollars, the responsibility of an Auditor General is to apprise the Legislature and the public in accordance with the Auditor General's mandate. The situation just described will come to pass if the complex accounting/financing design of the Ontario Fair Hydro Act, 2017 (Fair Hydro Act) is implemented."

Lysyk wrote that the total borrowings to be repaid by ratepayers will be an estimated $39.4 billion, with $21 billion of it accumulated interest, an estimate based on a Financial Accountability Officer (FAO) report released last spring.

She wrote that the scheme will cost Ontarians $4 billion more in interest payments than if the province had borrowed the funds directly.

"This cost stems from the fact that OPG/OPG Trust must pay a higher interest rate on borrowings than the Province would if it were to borrow in the normal manner through the Ontario Financing Authority," Lysyk wrote, adding that senior government officials were aware of that when they plan was created.

However, she also observed that the actual extra cost — the "interest rate spread between OPG/ OPG Trust debt and Provincial debt" — "will depend on market conditions at the time of the debt issuance."

The FAO came to the same conclusion in its report and had warned in a spring report that if the scheme does not meet with public sector accounting standards, the borrowed funds would count toward the province's net debt, suggesting that MPPs consult with the Auditor General on the issue.

In a statement included in the Auditor General's report, the government disagreed with the conclusions, arguing that it does meet public sector accounting standards and that the borrowing costs will be much lower than those cited in the report.

The government also disagreed with Lysyk's assertion that the plan was structured with the motive of avoiding budget deficits.

"Despite the report's assertion that the government's intention was to avoid recording a deficit in the fiscal plan, the decisions made to implement [the refinancing plan] 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," the government statement says. "The accounting for this transaction will reflect the substance of this transaction."

But Lysyk cited senior government officials and staff who expressed doubts about the merits of the plan. They believed the elaborate financing scheme would result in higher costs, and that both the Canadian Public Sector Accounting Standards and the Auditor General would be unlikely to allow the financing scheme. "Hopefully [the government] will come to the conclusion that [the Fair Hydro Plan] can be financed by the province ... rather than externally, as that would be a lot simpler and cheaper" one senior official wrote in an email.

The Auditor General's conclusions were not unexpected. Last spring, she testified at the committee studying the legislation that the scheme did not meet accepted public sector reporting standards, and warned it set a dangerous precedent.

"Under this Bill, the government's policy decision to borrow money to subsidize electricity bills will not affect the Province's net debt or annual deficit. This legislated accounting is not in accordance with Canadian public-sector accounting standards. These standards are there to ensure that the financial reporting of government policy decisions reflects common sense: borrowings are debt; unearned revenue is not an asset today; and when your expenses exceed your revenues, you incur a deficit. Such common sense and the principle of substance over form should prevail in the financial reporting of government policy decisions."

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