



Ontario Energy Board Commission de l'énergie de l'Ontario

MEDIA REQUEST FORM

Request Information

Date: April 17, 2018 6:50PM

Outlet: Globe and Mail

Reporter: Matt McClearn

Contact: MMcClearn@globeandmail.com

Subject/Topic: IESO and OEB

Deadline: Midday, Wednesday, April 18, 2018

OEB Staff Engaged: Theodore Antonopoulos, Martine Band

External Contacts Engaged: NA

Background:

Reporter has already spoken with IESO for this story. I would guess that they are the focus of this article, not the OEB.

The reporter has written about the IESO before:

Auditor-General blasts 'bogus' hydro accounting strategies in Ontario Published March 25, 2018

Ontario's Office of the Auditor-General said it uncovered irregular and improper accounting during a special audit of the Independent Electricity System Operator (IESO), a government body that manages key aspects of Ontario's electric-power system.

Bonnie Lysyk, the Auditor-General, informed the province's public accounts committee last week of problems uncovered during the audit, which began late last year and is now nearly complete. Her concerns included incorrect accounting, deceptive and obstructive behaviour by the IESO's board and management, and poor financial controls. If the improper accounting isn't corrected, Ms. Lysyk warned, she might issue an adverse opinion on Ontario's public accounts—the first such opinion on any government's financial statements in Canadian history. It's the latest development in a year-long showdown between the Auditor-General, the IESO and the provincial government over the Fair Hydro Plan, which introduced significant, temporary reductions to Ontarians' electricity bills. Ms. Lysyk alleged the scheme's financial and accounting structure was designed to avoid reporting the costs of rate reductions on Ontario's public accounts, thus allowing the government to falsely claim it had a balanced budget. As of



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the end of last year, she estimated, Ontario's deficit would be understated by more than \$1.3 billion—an amount that will continue to grow.

"We think this accounting is bogus," Ms. Lysyk told the committee.

Ms. Lysyk ordered the special audit late last year following a breakdown in her relationship with IESO's management, board and KPMG, the accounting firm which audits the IESO's books. In early 2017, KPMG did not respond to her office's inquiries about any looming accounting changes at the IESO. So she was blindsided in March, 2017, when IESO published financial statements using radically different accounting policies. Those new policies were put to immediate use with the Fair Hydro Plan.

At issue is how much influence the Auditor-General should have over the province's approach to accounting. Ms. Lysyk's office has the sole authority to audit the province's books, but the government itself is responsible for how they're presented. It has chosen to disregard her advice. Citing approval from "highly qualified public servants and highly respected accounting firms," the Ministry of Finance stated that "we know that Ontario's financial statements have been and continue to be presented accurately."

As an auditor of a government body, KPMG is "accountable to us in terms of ensuring that we have no surprises," Ms. Lysyk told the Public Accounts Committee. But the IESO's chief financial officer, Kimberly Marshall, saw no need to consult or notify the Auditor-General prior to adopting new accounting policies. "We would look to our external advisers," Ms. Marshall told the committee in February. KPMG said it had fulfilled its obligations by providing information to the Auditor-General after the IESO's books were restated.

The Auditor-General also objected to KPMG advising the government on how to structure the Fair Hydro Plan, while at the same time auditing the IESO's books. Randy Hillier, a Progressive Conservative MPP on the public accounts committee, said he shared the concern. "With half a million dollars or more in advisory fees, there might be a reasonable expectation, you might say, that their ability to be impartial and effective auditors had become compromised," he said. KPMG insisted it hadn't done anything wrong. "The professional standards for auditors clearly contemplate and permit a partner involved in providing advisory services of this nature to audit clients to also assist with the audit," it said in a statement.

The special audit also found the IESO's pension liabilities for unfunded benefits was understated. Ms Lysyk said the error would result in material misstatements on IESO's financial statements and the province's books.

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The Auditor-General's relationship with KPMG and the IESO deteriorated further during the course of the special audit. Ms. Lysyk alleged that IESO's board and management excluded her representatives from meetings at which the IESO's financial statements were approved.

"Instead of saying to us, 'You can come to meetings but you can't talk,' they didn't tell us when the board meeting was." Ms. Lysyk also said her office had been provided "a lot of non-truths" during the audit.

Ultimately, the Auditor-General's Office said it was unable to provide an audit opinion on the IESO's financials due to the board and management's refusal to sign key documents. "No valid reason for these refusals was provided to us." The IESO said it would have been inappropriate



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to sign the documents because the Auditor-General “was not formally engaged to perform this audit.”

Ms. Lysyk said this acrimonious relationship was unlike anything she’d experienced from the dozens of other agencies audited by her office. “When a board or management in any other province recognizes that an AG’s office has issues with their accounting, they would have handled it differently,” she told the committee “They basically treated, I think, my audit team like we were subservient to KPMG. In terms of the law in Ontario, that would be the reverse.” The IESO, KPMG and members of government asserted they’d been co-operative and transparent with the Auditor-General.

Status: FINAL AND COMPLETE

Questions:

- What regulatory authority concerning rates does the Ontario Energy Board wield over the IESO?
- What rates does it set?
- What is the Ontario Energy Board’s role in the Fair Hydro Plan?

Responses:

Under section 25 of the *Electricity Act, 1998*, the Ontario Energy Board’s (OEB) role is to approve the Independent Electricity System Operator’s (IESO) expenditure and revenue requirements for a given fiscal year and the fees that the IESO proposes to charge during the fiscal year. Fees as defined in the *Electricity Act, 1998* are amounts charged by the IESO to recover its costs of operations; for example, staff salaries and office space.

The IESO cannot establish, eliminate or change any fees without OEB approval. If the OEB disagrees with the IESO’s proposed expenditure and revenue requirements and proposed fees for a given year, the OEB may refer them back to the IESO for further consideration with the OEB’s recommendations.

Under the *Electricity Act, 1998*:

- the IESO cannot file its fees application for OEB review until the Minister has approved the IESO’s proposed business plan for the fiscal year in question;
- the OEB is deemed to have approved recovery by the IESO of its costs and payments related to procurement contracts (as defined); and
- in reviewing the IESO’s proposed expenditures and revenue requirements and its proposed fees, the OEB cannot take into consideration the remuneration and benefits of the chair and other members of the board of directors of the IESO.



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The fees approved by the OEB for 2017 are: \$1.2187/MWh for domestic customers and \$0.9872/MWh for export customers. These fees also apply, on an interim basis, from January 1, 2018 until such time as new fees are approved by the OEB.

IESO fees do not include the cost of services required to operate the electricity system and administer the wholesale market that the IESO bills market participants under the market rules; for example, the cost of operating reserve, market costs related to system congestion and losses on the IESO-controlled grid. These costs (and the IESO's fees) are ultimately passed through by electricity distributors to consumers as part of the wholesale market service charge set by the OEB. More detail about the wholesale market service charge is available on our website at <https://www.oeb.ca/rates-and-your-bill/electricity-rates/understanding-your-electricity-bill>.

Under the *Ontario Fair Hydro Plan Act, 2017* (OFHP Act), the OEB has a number of new or modified responsibilities:

- Setting Regulated Price Plan (RPP) prices to give RPP consumers the benefit of electricity price mitigation under the OFHP Act.
- Setting a GA “modifier” or credit to give eligible consumers that are not on the RPP the benefit of electricity price mitigation under the OFHP Act.
- Setting rates to enable recovery by the IESO of the balance recorded in the variance account that the IESO was required to establish under the OFHP Act.
- Setting the rates at which the Clean Energy Adjustment will be recovered from consumers.
- Approving fees that can be charged by the Financial Services Manager.
- Enforcing compliance with the OFHP Act by electricity distributors and unit sub-meter providers.

The OEB is also responsible for setting the cap on monthly base distribution charges for residential customers served by certain named electricity distributors under the Distribution Rate Protection program.